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ABSTRACT

This hearing document presents testimony comprising prepared statements and letters that address the direct loan concept (as authored by Senators Simon and Durenberger) in student financial aid, and the idea of tying repayment to income (income-contingent loan) as a means of simplifying the nation's guaranteed student loan process. Testimony focuses on the pros and cons relative to the implementation of such a program. A total of 16 prepared statements and 22 letters are included in the document. Among the prepared statements are those from Senators Clairborne Pell, Dave Durenberger, and Daniel K. Akaka, as well as statements from Robert K. Reischauer, director, Congressional Budget Office, Washington, DC, and Franklin Frazier, director, Education and Employment Issues, General Accounting Office, Washington, D.C. Other prepared statements come from administrators of student financial aid from several colleges and universities, including the University of Minnesota, Harvard University, Hope College of Michigan, and the Northwest Kansas Area Vocational-Technical School. Statements from the National Association of College and University Business Officers and the Association of Jesuit Colleges and Universities are also provided. (GLR)

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S. Hrg. 102-373

# FINANCIAL AID FOR ALL STUDENTS ACT OF 1991

# HEARING

OF THE

## COMMITTEE ON
## LABOR AND HUMAN RESOURCES
## UNITED STATES SENATE

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

ON

## S. 1845

TO ENSURE THAT ALL AMERICANS HAVE THE OPPORTUNITY FOR A HIGHER EDUCATION

OCTOBER 29, 1991

Printed for the use of the Committee on Labor and Human Resources

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# FINANCIAL AID FOR ALL STUDENTS ACT OF 1991

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TUESDAY, OCTOBER 29, 1991

U.S. SENATE,
COMMITTEE ON LABOR AND HUMAN RESOURCES,
*Washington, DC.*

The committee met, pursuant to notice, at 4:02 p.m., in room SD-430, Dirksen Senate Office Building, Senator Claiborne Pell, presiding.

Present: Senators Pell, Simon, Wellstone, Kassebaum, Jeffords, and Durenberger.

## OPENING STATEMENT OF SENATOR PELL

Senator PELL [presiding]. The Committee on Labor and Human Resources will come to order.

In the absence of Senator Kennedy, I am presiding at his request because he is handling the civil rights bill on the floor.

Last week I outlined my concerns in regard to the Simon-Durenberger proposal at the executive session, and I would ask that a revision of the statement I made be included in the hearing record at this time.

[The prepared statement of Senator Pell follows:]

## PREPARED STATEMENT OF SENATOR PELL

At the outset, I want to make very clear just how much the members of the subcommittee value the leadership Senator Simon has demonstrated so often in education. Personally, we worked closely together when he was chairman of the House Postsecondary Education Subcommittee, and it was always a good, solid working relationship. The same has been true since he came to the Senate. His voice in education is an eloquent one; his leadership is strong and positive.

Thus, while we may differ on this issue, everyone must understand that we do so within the context of years of working together, and that this difference will not alter that situation.

In theory, the idea of a direct loan proposal is most appealing. On the surface, it would greatly simplify a complex and sometimes cumbersome student loan program. Also, I find myself in accord with the concept of tying repayment to one's income.

I am afraid, however, that there are serious pitfalls in a direct loan program that may not appear on the surface. It is like an iceberg where the danger may lie below the surface.

First, while scoring under the Budget Enforcement Act indicates that a direct loan program would result in savings, we should be clear that it will cost money. It would involve an addition of at least $12 billion a year to the national debt, and that assumes no increases in loan limits. Also, philosophically, shifting responsibility for the program to the Federal Government goes against the grain of having the private sector assume responsibilities wherever it is possible.

Second, I am very concerned that both the Department of Education and many institutions of higher education do not have the capacity to administer a direct loan program. Many institutions have already contacted my office to support the current program and oppose a direct loan program. Many of them have small financial aid offices, often only three to five individuals. Their responsibilities with respect to the current grant and loan programs are burdensome enough. In the past, they have often had difficulty administering the $150 million a year Perkins loan program. It is difficult to imagine how they will handle a $12 billion a year program.

Third, there may well be additional administrative costs that will cut heavily into the anticipated savings. For instance, the Department of Education estimates that federal and institutional administrative costs will be at least $474 million, and could well reach $1.1 billion a year.

Fourth, I am very concerned that the program would be open to abuse by unscrupulous schools. Our efforts to safeguard the current program are based upon default rates, but those would have little meaning in a direct loan program in which repayment was handled through the income tax form. This is a very serious situation which must be addressed before moving down the direct loan road, and it is a complex issue that cannot be taken lightly.

Fifth, while the idea of an entitlement that would add $600 to the Pell Grant maximum is most appealing, there is nothing that would protect the Appropriations process from reducing Pell Grant appropriations by that amount and using that money for other education and health programs. That would be most unfortunate, indeed. I believe it would be better to proceed in the direction set in the bill before us, which would have us moving towards a full entitlement by Fiscal 1997.

I believe the proposal put forth by Senator Simon merits serious consideration. We may well want to hold additional hearings in this area, or perhaps even to formulate a demonstration program to test the concepts embodied in the Simon proposal. I do not believe, however, that we should proceed to fully implement a program of this nature when there are so many unanswered questions and potential problems. That would be a high-stakes gamble in which the ability of students to obtain loans to help finance their college education would clearly be at stake.

In brief I would say simply that the Simon-Durenberger proposal is something that should be studied, perhaps through additional hearings or a demonstration program. I believe in all honesty, though, that we should not rush its full implementation unless all of the questions and concerns are resolved in a satisfactory manner.

I would also point out that two of the proposals in the legislation before us have already been incorporated in S. 1150, the Higher Education Reauthorization bill that was unanimously reported out of our subcommittee last Thursday. These two provisions include the Excellence Scholarships, an idea originally advanced by our chairman, Senator Kennedy, and the Early Intervention Program proposal, advocated by Senator Jeffords.

I look forward to the testimony we will receive today.

Senator Simon.

## OPENING STATEMENT OF SENATOR SIMON

Senator **SIMON**. Thank you, and I shall be very brief, Mr. Chairman.

What we have to do in our society is either improve our productivity or reduce our quality of life. One of the chief ways to increase our productivity is to invest in education. And we have been slipping.

The old GI bill, Mr. Secretary, after World War II, if you were to index that, it would be up to about $8,100 on the average today. That was conceived as a gift to veterans, and it turned out to be a tremendous investment in our own prosperity.

I asked my staff to look at this—I am not going to go into all the details of the proposal—but the basic question is do we just tinker at the edges, or do we really do something that is needed for this Nation. My conclusion is the latter.

I do not suggest that every little detail is worked out, but we don't need to rush into this. We are talking about something that is going to be here for some years. The chairman's bill—and there is much in it that I applaud, and he has been a superb leader in the field of education; I am a private in the field of education, and he is a general in the field of education—but we are talking about something that is going to be here for some years. It wouldn't hurt us to take a couple of months to look carefully at what we are doing.

The proposal that Senator Durenberger and I have doesn't take effect until school year 1994-1995, so we have time for a transition. It seems to me the logic is so overwhelming on this that we ought to be moving in this direction.

I would like, Mr. Chairman, if I could, to insert a statement from the Association of Jesuit Colleges and Universities in behalf of the proposal.

Senator **PELL**. Without objection.

[The prepared statement of the Association of Jesuit Colleges and Universities follows:]

AJCU
ASSOCIATION OF JESUIT COLLEGES AND UNIVERSITIES

Boston College MA
Canisius College NY
College of the Holy Cross MA
Creighton University NE
Fairfield University CT
Fordham University NY
Georgetown University DC
Gonzaga University WA
John Carroll University OH
Le Moyne College NY
Loyola College MD
Loyola Marymount U CA
Loyola University IL
Loyola University LA
Marquette University WI
Regis College CO
Rockhurst College MO
St. Joseph's University PA
St. Louis University MO
St. Peter's College NJ
Santa Clara University CA
Seattle University WA
Spring Hill College AL
University of Detroit Mercy MI
University of San Francisco CA
University of Scranton PA
Wheeling Jesuit College WV
Xavier University OH

October 24, 1991

The Honorable Paul Simon
Dirksen Office Building - 462
U.S. Senate
Washington, D.C. 20510

Dear Senator Simon:

The Association of Jesuit Colleges and Universities strongly and warmly supports the introduction of the Income-Dependent Education Assistance (IDEA CREDIT) program that you and Senator Durenburger recently introduced. As you may know, this Association suggested an outline of such a program to the House Subcommittee on Postsecondary Education in early April - perhaps the only Association to have recommended that direction for the reauthorization of federal student loan programs.

We agree with your rationale for the program - both for the the levels of borrowing and its openness to all and look forward to your recommendations for sources of funds to initiate the program.

If there is any assistance we can provide, please let us know.

Respectfully,

Paul S. Tipton, S.J.
President

cc.: Members of the Committee on Labor and Human
Resources

1424 Sixteenth Street, N.W. Suite 504 Washington, D.C. 20036 Tel (202) 667-3889 Fax (202) 328-8643

## Testimony: Income-Contingent Loan Program

There are many innovative suggestions being offered for the reauthorization of student financial aid programs, and generally the suggestions are all for the same reasons: the complexities and high costs of current programs. Witnesses have testified at length before both House and Senate committees, about:
- simplification of financial aid application forms;
- the balance between grant and loan programs;
- the high default rates in some guaranteed loan programs;
- the weak administrative apparatus for handling student aid programs at some institutions.

In the loan area, a new plan for federally guaranteed direct loans to students by institutions has been proposed, and Congressmen Petri and Gejdenson, with 14 cosponsors, have introduced HR 2336, an income-contingent supplemental loan program that has many interesting features. The one thing all proposals have in common is the reduction of costs to the federal government, whether it be through reducing defaults, eliminating special allowances or cancelling in-school subsidies.

The proposal for an income-contingent loan program, based on federal funds and repaid through the Internal Revenue Service, is not new. It has generally been considered to be too costly, at least initially, to fund. Nevertheless, there are many positive reasons to recommend the establishment of this type of loan program, not the least of them being the criticisms of the current loan programs and their cost to the taxpayer. (A publication by the Department of Education indicates the federal revenue and expenditures of guaranteed loan programs from 1966 to 1990. One researcher indicates that the federal subsidy for Stafford loans amounts to nearly 50 cents on the dollar.) This Association wishes to bring some of the criticisms to your attention and wishes also to recommend an income-contingent loan program, although we will not make specific recommendations on the appropriate structure for such a program. Our submission to the House Subcommittee on Postsecondary Education earlier was intended to be general, so that it would allow room for discussion on this issue by Congress.

General Questions:

1. What can an income-contingent loan program do to offset the costs of present programs?
   a. There could not be defaults in any meaningful sense. The loan would be registered to a social security number (a way also of reducing fraud through false numbers and multiple loans,). At least under one proposal, the loans would be so designed that a progressive payback method would be used; the "treasury" or "fund" for the loans would not be depleted. The world of "federal guarantees", whether 80%, 90% or 100% would have disappeared.
   b. No special allowance would be necessary because there would be no intermediary between the borrower and the lender.
   c. No in-school subsidy would be needed because repayment is through future and prospective employment. There would indeed be a hiatus between grant of the loan and start-up of payback, but in time even that period would not result in loss of funds because of the continuing payback by other borrowers.

2. Would an income-contingent loan program provide adequate loan assistance to students from middle-income families?

   [Note: The Guaranteed Student Loan program was originally conceived as assistance to students from middle-income families. That was changed when deficits became serious: the budget reconciliation of 1981 undid the 1978 Middle-Income Student Assistance Act. The current reauthorization process has reflected the statements and remarks of many congressmen and senators that support for the postsecondary education needs of middle-income families must be restored. This is, in part, an equity issue.]

   To respond to this question, we need to find the percent of borrowers of federal loans who have incomes from $40,000 to $70,000, and the average amount borrowed by this cadre by year and by degree.

3. Will loan repayments be more expensive than those for current federally guaranteed loan programs?
   An appendix provides data on paybacks by month, year and total for loans of $5,000, $7,000, $10,000, $20,000, $30,000, and $50,000 over 10, 15, 20, 25, and 30 years at 6%, 8%, 10% and 12% interest rates. This presents a picture of repayment schedules for specific amounts borrowed at indicated interest rate percentages. The question then is the type of repayment most appropriate for student borrowers who become workers: what should be the maximum loan available, the term of the loan, and the percentage rate needed to maintain the fund?

More Practical Questions:

1. What are the eligibility criteria for the income-contingent loan program?
   Any citizen or permanent resident of the U.S., over 18 years of age and less than 55 years of age, enrolled in either an accredited college or a vocational/occupational school at least half-time.

2. What information is required from the student?
   a. By the institution: The name and social security number of the student.
   b. By another agency: The indicated institutional information, along with institutional education-related expenses if loan application is not to the institution.

3. What information is required from the institution?
   a. To the Federal Agency (whether the Treasury Department or a separate trust fund agency established by statute): its charter and most recent accreditation notice (and whether in the past its accreditation has been lost or suspended'; the name, social security number and academic eligibility of the borrower (with the signatures of the student and the authorizing institutional official), and the amount of the loan.
   b. To the student borrower: the amount of the loan, the terms of repayment as defined by the federal lending agency through deductions from

| Amount Borrowed | Term (years) | Interest Rate | Monthly Repayment | Annual Repayment | Total |
|---|---|---|---|---|---|
| | | 6% | $111.03 | $1332.36 | $13,324 |
| | 10 yrs. | 8% | $121.33 | $1455.96 | $14,560 |
| | | 10% | $132.16 | $1585.92 | $15,859 |
| | | 12% | $143.48 | $1721.76 | $17,218 |
| | | | | | |
| | | 6% | $84.39 | $1012.68 | $15,195 |
| | 15 yrs. | 8% | $95.57 | $1146.84 | $17,205 |
| | | 10% | $107.47 | $1289.64 | $19,350 |
| | | 125 | $120.02 | $1440.24 | $21,600 |
| | | | | | |
| | | 6% | $71.65 | $859.80 | $17,200 |
| $10,000 | 20 yrs. | 8% | $83.15 | $997.80 | $19,960 |
| | | 10% | $96.51 | $1158.12 | $23,160 |
| | | 12% | $110.11 | $1321.32 | $26,420 |
| | | | | | |
| | | 6% | $64.44 | $773.28 | $19,325 |
| | 25 yrs. | 8% | $77.19 | $926.28 | $23,150 |
| | | 10% | $90.88 | $1090.56 | $27,275 |
| | | 12% | $105.33 | $1263.96 | $31,600 |
| | | | | | |
| | | 6% | $59.96 | $719.52 | $21,600 |
| | 30 yrs. | 8% | $73.38 | $880.56 | $26,430 |
| | | 10% | $87.76 | $1053.12 | $31,590 |
| | | 12% | $102.87 | $1234.44 | $37,020 |
| | | | | | |

| Amount Borrowed | Term (years) | Interest Rate | Monthly Repayment | Annual Repayment | Total |
|---|---|---|---|---|---|
| | | 6% | $222.05 | $2664.60 | $26,646 |
| | 10 yrs. | 8% | $242.18 | $2906.16 | $29,062 |
| | | 10% | $264.31 | $3171.72 | $31,719 |
| | | 12% | $286.95 | $3443.40 | $34,434 |
| | | | | | |
| | | 6% | $168.78 | $2025.36 | $30,375 |
| | 15 yrs. | 8% | $191.14 | $2293.68 | $34,410 |
| | | 10% | $214.93 | $2579.16 | $38,685 |
| | | 12% | $240.04 | $2880.48 | $43,200 |
| | | | | | |
| | | 6% | $143.29 | $1719.48 | $34,380 |
| $20,000 | 20 yrs. | 8% | $167.29 | $2007.48 | $40,160 |
| | | 10% | $193.01 | $2316.12 | $46,320 |
| | | 12% | $220.22 | $2642.64 | $52,860 |
| | | | | | |
| | | 6% | $128.87 | $1546.44 | $38,650 |
| | 25 yrs. | 8% | $154.37 | $1852.44 | $46,300 |
| | | 10% | $181.75 | $2181.00 | $54,525 |
| | | 12% | $210.65 | $2527.80 | $63,200 |
| | | | | | |
| | | 6% | $119.92 | $1439.04 | $43,170 |
| | 30 yrs. | 8% | $146.76 | $1761.12 | $52,830 |
| | | 10% | $175.52 | $2106.24 | $63,180 |
| | | 12% | $205.73 | $2468.76 | $74,070 |
| | | | | | |

| Amount Borrowed | Term (years) | Interest Rate | Monthly Repayment | Annual Repayment | Total |
|---|---|---|---|---|---|
| | | 6% | $333.07 | $3996.04 | $39,960 |
| | 10 yrs. | 8% | $363.99 | $4367.88 | $43,679 |
| | | 10% | $398.46 | $4781.52 | $47,815 |
| | | 12% | $430.42 | $5165.04 | $51,650 |
| | | | | | |
| | | 6% | $253.16 | $3037.92 | $45,590 |
| | 15 yrs. | 8% | $286.70 | $3440.40 | $51,600 |
| | | 10% | $322.39 | $3868.68 | $58,035 |
| | | 12% | $360.06 | $4320.72 | $64,815 |
| | | | | | |
| | | 6% | $214.93 | $2579.16 | $51,580 |
| $30,000 | 20 yrs. | 8% | $250.94 | $3011.28 | $60,220 |
| | | 10% | $289.51 | $3474.12 | $69,480 |
| | | 12% | $330.33 | $3791.64 | $79,280 |
| | | | | | |
| | | 6% | $193.30 | $2319.60 | $58,000 |
| | 25 yrs. | 8% | $231.55 | $2778.60 | $69,475 |
| | | 10% | $272.62 | $3271.44 | $81,775 |
| | | 12% | $315.97 | $3791.64 | $94,800 |
| | | | | | |
| | | 6% | $179.87 | $2158.44 | $64,740 |
| | 30 yrs. | 8% | $220.13 | $2641.66 | $79,260 |
| | | 10% | $263.28 | $3159.36 | $94,770 |
| | | 12% | $308.59 | $3703.08 | $111,090 |
| | | | | | |

| Amount Borrowed | Term (years) | Interest Rate | Monthly Repayment | Annual Repayment | Total |
|---|---|---|---|---|---|
| | | 6% | $555.11 | $6618.60 | $66,186 |
| | 10 yrs. | 8% | $606.64 | $7279.18 | $72,799 |
| | | 10% | $660.76 | $7929.12 | $79,291 |
| | | 12% | $717.36 | $8608.13 | $86,083 |
| | | | | | |
| | | 6% | $421.93 | $5063.16 | $75,945 |
| | 15 yrs. | 8% | $477.83 | $5733.96 | $86,010 |
| | | 10% | $537.31 | $6447.72 | $96,720 |
| | | 12% | $600.09 | $7201.08 | $108,015 |
| | | | | | |
| | | 6% | $358.22 | $4298.64 | $85,980 |
| $50,000 | 20 yrs. | 8% | $418.23 | $5018.76 | $100,380 |
| | | 10% | $482.52 | $5790.24 | $115,800 |
| | | 12% | $550.55 | $6606.60 | $132,140 |
| | | | | | |
| | | 6% | $322.16 | $3865.92 | $96,652 |
| | 25 yrs | 8% | $385.91 | $4630.92 | $115,775 |
| | | 10% | $454.36 | $5452.32 | $136,300 |
| | | 12% | $526.62 | $6319.44 | $157,975 |
| | | | | | |
| | | 6% | $299.78 | $3597.36 | $107,910 |
| | 30 yrs. | 8% | $368.91 | $4426.92 | $132,810 |
| | | 10% | $438.79 | $5265.48 | $157,950 |
| | | 12% | $514.31 | $6171.72 | $185,151 |
| | | | | | |

Senator SIMON. I would also like to insert a statement by the National Association of College and University Business Officers. And I stress the National Association of College and University Business Officers because these are the people who have to deal with this. These are not financial aid officers who might be willing to buy something that is pie-in-the-sky; these are people who have to deal with it every day. And let me just read a few sentences here:

"This program would be more cost-effective and less administratively burdensome than the current Guaranteed Student Loan delivery and collection system. Bringing the loan program to the campus would simplify the loan origination task for the student, improve significantly the initial administrative aspects such as the disbursement process and related accounting and processing functions, and strengthen borrower awareness of repayment responsibilities. It would simplify and improve the receipt and disbursement of funds' functions."

And I have statements from a number of other colleges and universities, from 2-year schools to larger schools, in behalf of the program, and I would like to insert those in the record.

Senator PELL. Without objection.

[The prepared statement of the National Association of College and University Business Officers and additional statements follows:]

NACUBO
National Association of College and University Business Officers
One Dupont Circle, Suite 500, Washington, D.C. 20036-1178 • Telephone 202-861-2500

## STATEMENT OF ROBERT BRIDE

## ON BEHALF OF THE

## NATIONAL ASSOCIATION OF COLLEGE AND UNIVERSITY BUSINESS OFFICERS

I am pleased to have the opportunity to submit this statement to the Senate Subcommittee on Education, Arts and Humanities on behalf of the National Assocation of College and University Business Officers (NACUBO). NACUBO is a nonprofit higher education association with a membership of 2,100 institutions of higher education, including two-year and four-year, large and small, public and independent colleges and universities. NACUBO's priority focus is on the financial management and administrative operation of colleges and universities.

I am Associate Vice President of Business and Finance at Loyola Marymount University in Los Angeles, California. I also serve as the chair of the Student-Related Programs Committee of NACUBO, a volunteer advisory group that examines public policy issues affecting students and has a major interest in the institutional administration of federal student financial aid programs. In addition, I represent NACUBO on the NASULGC Direct Loan Working Group that is examining issues related to the potential implementation of a federal direct loan program.

These remarks address the concept of direct lending from the business officer's perspective. NACUBO and its members are currently assessing various reauthorization proposals that would support a departure from the current guaranteed student loan programs authorized under Title IV of the Higher Education Act (HEA), but to date we have not completed our full analysis of the Andrews or Simon-Durenberger proposals.

For many years NACUBO has supported concepts and proposed changes in federal student loan programs that (1) would result in federal programs permitting student loans to be originated on campus, and (2) would promote higher standards of fiscal integrity and accountability for program administration and management. In 1989, the association made recommendations to the Advisory Committee on Student Financial Assistance that colleges and universities be offered greater opportunity to serve as lenders in the Stafford, PLUS and SLS programs. NACUBO also responded to questions posed by the former Secretary of Education, Lauro Cavazos, on standards for proprietary schools participating in the Title IV programs. NACUBO recommended that ED develop separate regulatory requirements for that sector based on inherent differences between the financial and management perspectives and goals of for-profit and nonprofit postsecondary educational institutions.

We believe that the concept of direct lending is a feasible and viable alternative to the current delivery system of guaranteed student loans. It is our impression, and this is backed by several recent federal studies, that a federal direct lending program would be more cost effective and less administratively burdensome than the current guaranteed student loan delivery and collection system. We also believe that bringing the loan program to the campus would simplify the loan origination task for the student, improve significantly the initial administrative aspects such as the disbursement process and related accounting and processing functions, and strengthen borrower awareness of repayment responsibilities. We know the results would be positive based on the documented success of colleges and university participation in the Perkins Loan program.

Colleges and universities currently participating in the Title IV programs maintain the appropriate fiscal and accounting systems to support direct lending and, in general, institutions of higher education have the capability to administer and manage direct loans in accordance with the proposals set forward this year. In addition, many institutions have successfully operated institutional based student loan programs for many years using both institution and privately donated funds.

Direct lending would bring (in most cases) all components of a student's financial aid package to the campus, expedite the flow of funds to eligible students, and simplify and improve the receipt and disbursement of funds functions. We firmly believe that institutional administrative efficiencies and improved controls can be achieved under a direct loan program when compared with the overall current guaranteed student loan process which in turn would also better serve the student borrower.

Establishment of direct loans as the principal form of federal loans for students has the potential to reduce errors and enhance accountability when compared with the current complex student loan delivery system which involves multiple participants--the Department of Education, banks and guarantee agencies (and their servicers), student and parent borrowers, postsecondary institutions, and secondary markets--and a myriad of processing requirements that transpire among these entities. We believe that elimination of several of the processing steps would result in cost savings to the federal government.

Based on our experience with the Perkins Loan program, we also believe that movement to greater campus-based lending would lead to a reduction in student loan defaults. At a minimum it would strengthen the linkage between the student borrower and the institution and the student's understanding of the relationship of his or her student loan to receiving a college education. The discussion of obligation and repayment, of the rights and responsibilities of both the student and the institution, take on greater meaning when the individuals involved in these discussions are linked via the educational experience.

Although direct loans may increase the volume of administrative duties on campuses or change the structure and roles of selected offices at some institutions, an initial assessment indicates that the reduction in tasks dealing with banks, waiting for the checks, and so on, combined with the benefits of greater control over the entire process, would yield a favorable result for most colleges and universities. In cases where smaller institutions might be overburdened by assuming responsibilities for a direct loan program or have concerns about costs, we would recommend that options be permitted such as the development of institutional-based consortia to share the burden and costs.

As we discuss the simplification of the process at the institutional level, we cannot help but draw a similar conclusion that the Department of Education also would benefit from a reduction in the number of participants in the delivery system. We hope that the Subcommittee and other members of Congress will seriously consider and evaluate the cost savings and simplification of the delivery system that we believe could accrue from the establishment of a direct loan program as the principal federal student loan program.

Another key component of any new direct loan program must be the establishment of high performance standards for administrative management to assure fiscal integrity and accountability for all participants. NACUBO firmly believes that any student financial aid program in which there is institutional participation must include requirements that seek to minimize the risks associated with poor stewardship of federal funds, weak or improper management, and lack of program integrity. In this regard, NACUBO would be pleased to work with members of the Subcommittee and others in Congress in developing and defining standards of financial and administrative management and integrity.

In closing, I thank the members of the Subcommittee on Education, Arts and Humanities, on behalf of NACUBO and myself, for providing us with an opportunity to make known our support for the concept of direct lending. We hope that there will be future opportunities to discuss in greater detail the key functions and responsibilities of the business office with respect to administering and managing federal student aid programs on the campus and to assist in the identification of areas where cost savings associated with direct lending are likely to result.

UNIVERSITY OF MINNESOTA
TWIN CITIES

Office of Student Financial Aid
Student Support Services
210 Fraser Hall
106 Pleasant Street S.E.
Minneapolis, Minnesota 55455-0422
197 Coffey Hall
1420 Eckles Avenue
St. Paul, Minnesota 55108-1030

Fax: (612) 624-9584

October 28, 1991

To: The Honorable David Durenberger
United States Senator

Fr: Christopher J. Halling
Director of Student Financial Aid

I have attached written testimony that we wish to be included in the committee record during the Tuesday October 29, 1991 hearing on direct loan programs before the Senate Labor and Human Resources Committee.

We appreciate the opportunity to comment on this most important legislation. Further, we greatly appreciate the efforts that you and Senator Simon have made in proposing these bold changes to student postsecondary education finance.

As the reauthorization proceeds over the next few months, we are at your disposal to answer any questions you may have on how proposed language in the bill will impact the University's students or our administration of the Title IV programs. We want to be an active and constructive participant in the reauthorization and we appreciate the opportunity you have provided us.

Written Testimony for the Senate Labor and Human Resources Committee
Senator Edward M. Kennedy, Chairman
October 29, 1991

I am writing on behalf of the University of Minnesota system and its four financial aid directors. We represent the four campuses of the University of Minnesota system. This system includes a two year technical college at Crookston with an enrollments of 1,336; a four year liberal arts school at Morris with an enrollment of 1,915; and combined undergraduate, graduate and professional programs on our Duluth and Twin Cities campuses with enrollments of 7,770 and 39,315 respectively.

We urge the Senate to consider a bold revision of the Title IV financial aid programs during this year's reauthorization of the Higher Education Act of 1965. The best interests of students will be served by a simplified aid delivery system that includes direct loans and significant increases in the Pell Grant program. While these changes will not be easy for anyone in the delivery system, this is a worthy goal that can significantly alter a decade of erosion in education finance.

Our support for these goals is driven by the fact that we have a system of aid delivery today that no one understands, that lacks public credibility and that has lost its sense of purpose. We believe that an ideal system for financing education would require that no student have to depend on loans or work for more than half his or her cost of attendance. To achieve that ideal will require a significant increase in the Pell Grant. Of the proposals now before the Congress, only the direct loan proposals offer the savings that will allow an increase in the Pell Grant.

BEST COPY AVAILABLE

Our call is not simply for a shift in the loan/grant ratio. We urgently need simplification of the delivery system. Simplification can serve not only students, but schools and the federal government as well. We support a direct loan program to simplify aid delivery provided that it satisfies student needs in a number of areas:

1. Students need to be assured that an orderly transition to a direct loan program will be accomplished so that money will be there when they arrive at school.
2. Students need to be assured that schools will not be encumbered with administrative requirements, the effect of which will be to lengthen the time from application to disbursement of aid.
3. Students need a loan program that informs them of their responsibilities, a delivery system they can understand and a simple repayment system that adjusts to their ability to pay as they enter the workforce.

We believe that a thoughtfully constructed direct loan program such as that proposed by Senators Durenberger and Simon can meet these objectives if you provide the government and postsecondary education institutions sufficient time to implement the changes, a simple system of administration, and adequate resources to replace those services and supplies now provided postsecondary education institutions by lenders and guarantee agencies.

On the last point. Our experience has been that many cry foul when postsecondary education institutions ask policy-makers to recognize legitimate administrative costs. But the fact remains that today we face extreme fiscal constraints that are compounded by an overly complex system of federal mandates. During reauthorization, this places a premium not necessarily on increasing administrative allowances, but rather on designing a system of delivery that lessens administrative burden. Finally, lenders and guarantee agencies currently assist schools and their students, by providing loan counseling materials, promissory notes and donations of staff time. Most of this assistance is used to meet the loan counseling and other requirements which we expect will continue under any successor to the guaranteed loan programs. We ask that these costs be recognized as you design the delivery system and consider the appropriations necessary to operate it.

Thank you for the opportunity to comment on this most important legislation.

Sincerely,

Bud Carpenter for Christopher Halling

Christopher J. Halling
Director of Student Financial Aid
University of Minnesota, Twin Cities

PENNSTATE

Office of Student Aid
Anne M. Griswold
Assistant Vice President for
Student Financial Aid

(814) 865-6301
The Pennsylvania State University
314 Shields Building
University Park, PA 16802-1220

October 27, 1991

Senator Paul Simon
462 Senate Dirksen Office Bldg.
Washington, DC 20510-1302

Dear Senator Simon,

I have just reviewed your proposal concerning direct lending that the Senate Committee on Labor and Human Resources will be considering this upcoming week. I want to express strong support for a direct loan program for students attending higher educational institutions.

I have studied the issue carefully and think that it presents the most significant change for the better to our current system. Direct Lending eliminates the third parties who have benefitted tremendously at the expense of our students. Penn State students as well as all others must pay origination fees and insurance fees that are subtracted from their loan checks, never being able to access that money. In repayment, however, they must return all of the borrowed money. Under direct lending, more assistance will be delivered to the student. How simple, and the taxpayer saves money in the process.

The National Association of State Universities and Land Grant Institutions have done an analysis that fully explains how the new program can work for schools. It is our belief that all schools can administer this new program with great ease compared to our current Stafford program. By eliminating over 1,500 lenders and over 50 guarantee agencies, Penn State will be in a position to assist its students as it never has before.

Please continue to support this most important idea. I lend my support completely to that end. Thank you for the opportunity to provide these remarks.

Sincerely,

Anna Griswold

Anna Griswold
Assistant Vice President
for Student Financial Aid

BW:Simon

An Equal Opportunity University

| Amount Borrowed | Term (yrs.) | Interest Rate | Monthly Repayment | Annual Repayment | Total |
|---|---|---|---|---|---|
| | | 6% | $55.72 | $668.64 | $6866 |
| | 10 yrs | 8% | $60.67 | $728.04 | $7280 |
| | | 10% | $66.08 | $792.96 | $7930 |
| | | 12% | $71.74 | $860.88 | $8609 |
| | | | | | |
| | | 6% | $42.20 | $506.40 | $7596 |
| | 15 yrs | 8% | $47.49 | $569.88 | $8548 |
| | | 10% | $53.74 | $644.88 | $9673 |
| | | 12% | $60.01 | $720.12 | $10,802 |
| | | | | | |
| | | 6% | $35.83 | $429.96 | $8599 |
| $5000 | 20 yrs | 8% | $47.49 | $501.96 | $10,039 |
| | | 10% | $48.26 | $579.12 | $11,582 |
| | | 12% | $55.06 | $660.72 | $13,214 |
| | | | | | |
| | | 6% | $32.22 | $386.64 | $9675 |
| | 25 yrs | 8% | $38.60 | $463.20 | $11,575 |
| | | 10% | $45.44 | $545.28 | $13,625 |
| | | 12% | $52.67 | $632.04 | $15,800 |
| | | | | | |
| | | 6% | $29.88 | $358.56 | $10,770 |
| | 30 yrs | 8% | $36.69 | $440.28 | $13,200 |
| | | 10% | $43.88 | $526.56 | $15,810 |
| | | 12% | $51.44 | $617.28 | $18,520 |
| | | | | | |

| Amount Borrowed | Term (years) | Interest Rate | Monthly Repayment | Annual Repayment | Total |
|---|---|---|---|---|---|
| | | 6% | $77.72 | $932.14 | $9321 |
| | 10 yrs. | 8% | $84.93 | $1019.16 | $10,192 |
| | | 10% | $92.51 | $1110.12 | $11,101 |
| | | 12% | $100.43 | $1205.16 | $12,052 |
| | | | | | |
| | | 6% | $59.07 | $708.84 | $10,635 |
| | 15 yrs. | 8% | $66.90 | $802.80 | $12,045 |
| | | 10% | $75.23 | $902.76 | $13,545 |
| | | 12% | $84.02 | $1008.24 | $15,120 |
| | | | | | |
| | | 6% | $50.16 | $601.92 | |
| $7000 | 20 yrs. | 8% | $55.56 | $666.72 | |
| | | 10% | $67.56 | $810.72 | |
| | | 12% | $77.08 | $924.96 | |
| | | | | | |
| | | 6% | $45.11 | $541.32 | $13,538 |
| | 25 yrs. | 8% | $54.03 | $648.20 | $16,210 |
| | | 10% | $63.61 | $768.32 | $19,208 |
| | | 12% | $73.73 | $884.76 | $22,119 |
| | | | | | |
| | | 6% | $41.97 | $503.64 | $15,188 |
| | 30 yrs. | 8% | $51.37 | $616.44 | $18,498 |
| | | 10% | $61.44 | $737.28 | $22,118 |
| | | 12% | $72.01 | $864.12 | $25,924 |
| | | | | | |

THE UNIVERSITY OF CHICAGO
5801 ELLIS AVENUE
CHICAGO · ILLINOIS 60637

General Counsel
and Vice-President
for Administration

(312) 702-7341

October 29, 1991

The Honorable Paul Simon
United States Senate
462 Dirksen State Office Building
Washington, D.C. 20510

Dear Paul:

The Simon-Durenberger proposal is an important addition to the legislative discussion of student loans. Based on the summary you sent us last week, we think it deserves serious consideration by the Senate, and by the higher education community.

The concept of direct loans is of interest to The University of Chicago, first and foremost because of advantages it may have for many of our students. Over the years, the present program has become more complex for students, especially the application process. In addition, as you point out, students who wish to enter fields that are less well paid may be deterred from doing so if they need loans to complete their training. The repayment plan you propose would ameliorate that difficulty.

We want to work with you to advance consideration of your bill by the Senate. We favor many of its features, and will welcome the opportunity to discuss others with you.

For example, we are concerned about the transition from the present system to direct loans. Under a direct loan program, universities and colleges and the government will need new automated systems to manage the program efficiently, and provide information forecasting the needs of students. We hope your bill will include a plan for compatible systems linking institutions and the government. Legislation governing the transition should provide funds to create such systems, and to test and perfect them during the transition years.

In addition, the real costs of administering the program in institutions should be tested. Our preliminary calculations suggest that the costs at this University will exceed the $20 per student now under discussion by a considerable margin. As you know, colleges and universities cannot afford to subsidise the program.

We look forward to a further review of the bill, and hope that this innovative proposal will give us an opportunity to work with you toward an improved student loan program.

Cordially,

Arthur M. Sussman

Arthur M. Sussman

The
University of Oklahoma

OFFICE OF FINANCIAL AID
751 Elm, Robertson Hall
Norman, Oklahoma 73019-0230
(405) 325-4521

October 28, 1991

The Honorable Paul Simon
United States Senate
Washington, D. C. 20510-1302

Dear Senator Simon:

The University of Oklahoma has currently enrolled 19,650 students. We administered in 1990/91, $21,181,230 in Stafford loans to 7,873 students. Nearly half the need based financial aid administered by OU is in the form of loans. Our default rate calculated in that year was 2.7%.

My experience suggests that Direct Lending can be more easily managed and less expensive for both students and government. Loans are an integral part of the University's financial aid program. Based upon review of information received to date, the University supports the Direct Lending Program.

I've included a copy of a joint letter prepared by several Big 8 Financial Aid Directors. Time and distance prevented our joint signatures but I concur with Direct Lending issues as expressed.

Sincerely,

Richard Hall
Director
Financial Aid Services

RH:adw

*Time for Greatness*

Subj: Letter to Senator Simon

The Honorable Paul Simon
United States Senate
Washington, D.C. 20510-1302

Dear Sen. Simon:

We appreciate this opportunity to comment upon your recent Direct Loan program proposal to the Senate Sub-Committee on Education. We represent the student financial aid programs at ISU, KSU, CU-Boulder (etc), often referred to in group by the public by our athletic affiliation, "The Big 8".

In 1990-91, we administered on your behalf $_________ in Guaranteed Student Loans for _______ students. We therefore have some considerable experience with the existing student loan programs both with the individual opportunities they have provided, as well as the difficulties and frustrations they often present to our students, from application to repayment. Default rates at our institution range from _____ to _____. By that measure alone we might be considered to be operating relatively successful programs. However, we believe even this record can be improved upon if bold steps are taken to reconfigure this very important federal education program.

The loan program is so important to our students, in fact, that many have warned us not to speak out. It is thought by some that to "rock the boat" might jeopardize a "line of credit" that is absolutely critical to the educational dreams of hundreds of thousands of American families. We believe differently. Rather than assume a position of protecting what we have, we prefer to heed the warnings of the Nunn Report and other studies that say that the existing Guaranteed Student Loan model is dysfunctional to the extent that it will soon erode the overwhelming public support for government based student financial assistance for post-secondary education.

We believe that the existing program is too complex for the Department of Eduction and the participating schools to administer well. We also believe it is too complex for students and their families to fully understand the process of obtaining the benefit, and what their rights and responsibilities are once a loan is obtained. This situation has led to instances of fraud and abuse that have embarrassed students as a group, schools, and the government.

The complexity is a direct result of too many players in the program; i.e., students, schools, lenders, guarantors, secondary markets, service agencies, need analysis agencies, lobbyists, etc. A simple model with fewer players is needed.

We also believe that the existing loan model is more expensive than the proposed direct loan model would be. All of the previously mentioned agencies participate because of a perceived benefit to themselves. It seems only common sense that eliminating those not directly involved in the educational program would save program costs. Our experience with the existing direct loan program (Perkins) is that it is cheaper to administer for all parties concerned. The Credit Reform Act now makes it possible for this cheaper model to be used on a larger scale without increasing the federal budget deficit.

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The Secretary of Education has recently suggested that the Department of Education is not prepared to handle a direct loan program. We would respectfully suggest that the Department is not and has not been prepared to handle the very complex Guaranteed Loan program, but that the direct loan programs proposed in both the House and Senate committees leads directly to the strengths and experience of the Department. That is, of administering contracts and regulating schools. We believe that with reasonable development time, and with the use of negotiated rule making, the Department will be able to guide us out of the loan difficulties we have all been experiencing over the past decade.

As school administrators, relieved of the responsibility of dealing with thousands of outside agencies, multiple student applications, complicated and unnecessary, at least at low default schools, and disbursement requirements, we are confident we would be able to administer a direct loan program.

We have not had sufficient time to study the different loan collection models offered in the House and Senate versions of the direct loan program. We feel however, that whether or not the Internal Revenue Service, or contracts with collection agencies is used, the direct delivery of funds to students through schools is a significant improvement over the existing guaranteed loan program. By itself, this approach will save both student and government money. We also believe that the reduction in complexity will lead to a reduction in fraud and abuse.

We also commend to you, at the same time, a single and free need analysis formula and application. We recommend for those schools assisting upper middle income families with private funds, freedom to collect additional financial information through a fee collecting service.

Adoption of the direct loan concept and the need analysis points mentioned above will make significant progress toward Congress's stated goal of simplifying the delivery of federal student aid.

Sincerely,

AMHERST COLLEGE
AMHERST · MASSACHUSETTS · 01002

Office of Financial Aid
Telephone: 413-542-2296
Fax: 413-542-2628

October 28, 1991
VIA FACSIMILE TRANSMISSION

The Honorable Paul Simon
United States Senate
462 Dirksen Office Building
Washington, D.C. 20510

Dear Senator Simon:

Amherst College supports the direct lending proposal that you and Senator Durenberger have made as a part of reauthorizing the Higher Education Act.

From our perspective direct lending simplifies the loan process for students, streamlines colleges' paperwork and administrative details, delivers funds more promptly to students and their institutions, and is very likely to produce substantial savings for taxpayers. Bypassing the multitude of lending institutions and guarantee agencies that a college with a student body drawn from across the nation must deal with is especially attractive to us.

We applaud your efforts, and would be pleased to provide any assistance that we can as your proposal moves forward.

Sincerely yours,

Joe Paul Case
Dean of Financial Aid

JPC:do

Financial Aid Office
**West Virginia University**
Division of Student Affairs

October 28, 1991

The Honorable Paul Simon
462 Dirksen Senate Office Building
Washington, DC 20210

Dear Senator Simon:

I am pleased to learn of your support for Direct Loans.

The Direct Lending program has the potential to provide relief to many of the concerns associated with educational loans today.

Simplification of processing will address many of the problems, which will make it easier for families to better understand financial aid as they apply. It should also keep defaults at a minimum as a result of greatly reducing the potential contacts a borrower may have following graduation.

I have been working in financial aid since 1963. I served as NASFAA's president in 1977-78 and while on leave from West Virginia University in 87-88, was the individual responsible for the agency guaranteeing loans in West Virginia. I have been involved in all aspects of educational loans and I am thoroughly convinced that the direct loan proposal is the most reasonable approach to dramatically improving educational loans.

I would be pleased to address any questions you or your staff may have concerning my support of the direct loan proposal. My phone number is 304/293-5242.

Sincerely,

Neil E. Bolyard

Neil E. Bolyard
Director

NEB/nu

P.O. Box 6004 ○ Morgantown, WV 26506-6004
Equal Opportunity / Affirmative Action Institution

# TESTIMONY OF

Phyllis K. Hooyman
Director of Financial Aid
Hope College
Holland, Michigan

Before the Senate Committee on Labor and Human Resources
October 29, 1991

I am Phyllis K. Hooyman, Director of Financial Aid at Hope College located in Holland, Michigan. Hope is a four-year independent liberal arts college with an enrollment of approximately 2800 students. Under the current Stafford Loan Program, we processed 1,100 loans during the 1990-91 academic year, totalling $2,300,000.

As a point of reference, I have been employed within the financial aid profession for 14 years, am a past president of the Michigan Student Financial Aid Association, and currently serve as Chair for both the Federal Issues Committee of the Midwest Association of Student Financial Aid Administrators and the Legislative Committee of the Michigan Student Financial Aid Association.

The concept of direct lending, as proposed by Senators Simon and Durenberger, is attractive to me as an aid professional as well as to my institution.

The Stafford Loan program as we now know it, is often a bureaucratic nightmare for students, parents, institutions, and financial aid professionals. When a student borrows under this program, s/he may eventually be involved with as many as six different agencies during the life of the loan (i.e., the school, the lender, the guarantor, a servicing company, a secondary market, and the federal government). Each lender and each guarantor has agency-specific applications, agency-specific forms, and agency-specific policies.

In addition, the entire application process is cumbersome to the student. The student must first file a financial aid application to find out if s/he is eligible to receive a Stafford Loan. The Financial Aid Office then notifies the student of his/her eligibility. The student then must file a separate Stafford Loan application in order to receive the loan proceeds. This loan application is handled by the student, by the school, by the lender, and by the guarantor. The process is extremely time-consuming and the student may wait several weeks to receive his/her loan check.

Under the direct lending approach, the involved parties would consist of the school, a servicer, and the federal government. The student would simply have to file a financial aid application, the Financial Aid Office would notify the student regarding his/her eligibility, and upon signing the necessary promissory note, the student could realize an immediate loan credit to his/her account.

Direct Lending, in its current proposed format, could be easily administered by an institution such as Hope College. It is very likely that there would be less administrative burden, less paperwork, and fewer liabilities for institutions under the direct lending approach. The current Perkins Loan program, which serves as a model for direct lending, is an easily administered and simply formatted federal program which serves our students effectively and efficiently. The administrative burden of the Perkins Loan program is significantly less than that of the current Stafford Loan program.

Under the current direct lending proposals, it would not be necessary for Hope College to provide additional staffing to its Financial Aid Office in order to support this new program. From the perspective of my institution, the administrative resources currently utilized for the processing of Stafford Loan applications and incoming Stafford loan checks could be easily shifted to the processing of Direct Loan promissory notes and account reconciliation.

Students would benefit in that they would realize more timely loan credits to their accounts, they would no longer be assessed costly guarantee and origination fees, and they would realize greater simplicity in the securing and processing of their loans.

Rather than the current time frame relative to the receipt and processing of student loan checks, credits could be made immediately to a student's account upon the receipt of a signed promissory note. In addition, the administrative responsibilities, liabilities, and agency-specific confusion could be significantly reduced.

In terms of program cost savings, it has now been substantiated by both the Congressional Budget Office and the General Accounting Office that Direct Lending could save over $1 billion -- present value terms -- assuming the loans are made in fiscal year 1992.

I have had the opportunity of reviewing both the House and the Senate proposals relative to direct lending. Either of these two approaches could be effectively administered at Hope College given our current levels of administrative and staffing support.

More importantly, I believe that direct lending, as currently constructed, could be very beneficial to our students in terms of quicker access to loan funds, the elimination of fees, and less confusion and bureaucracy.

It is my sincere hope that throughout all debate and discussion relative to direct lending that we will remain focussed on the student and how s/he will be impacted by our decisions.

Bemidji State University
1500 Birchmont Drive NE
Bemidji, Minnesota 56601-2699

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Testimony by John Schullo, Director of Financial Aid, Bemidji State University, Bemidji, Minnesota 56601-2699 before the Senate Subcommittee on Education, Arts and the Humanities on October 29, 1991.

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Bemidji State University is a small State University of 5,400 students located in Northern Minnesota. We are one of the smaller universities comprising the seven institutions which make up the Minnesota State University System of 65,000 students. Our institution is located within forty miles of three major Indian Reservations. Yet, one-fourth of our students are from the Twin Cities. Many of our students are high need students from low income families...and in case you are wondering, our cohort default rate on the Stafford Loan Program is 4.8% and our default rate on the Perkins Loan Program is 3.91%. Our students pay back their obligations.

Reauthorization is always an exciting time for the financial aid community. We find ourselves asking, "Are they going to get it right this time?" My financial aid career began in 1966 as a direct result of the Higher Education Act of 1965. I have, for many years, observed and eagerly anticipated each Amendment and Reauthorization of that brilliant original piece of legislation. Again, in 1991 we find ourselves asking, "Are they going to get it right this time?"

Many of the new proposals surfacing as a result of the Reauthorization process are right on target. A single need analysis, a free application, direct loans, simplification, etc., are examples which demonstrate to me and to students that someone is listening.

(You must be receiving calls from the same mother I am. I call her "Mother-of-the-Smoking-Phone." She has been calling me for 25 years. I would like her to stop calling me.)

The Financial Aid for All Students proposal is not only right on target...it hits the bulls-eye. The IDEA Credit plan to replace the current guaranteed student loan programs, the shift in the in-school subsidy to the Pell Grant Program, the repayment of loans through the income tax system, the income sensitive repayment process, the "Dream Fund," the new loan limits, and the Pell Grant entitlement, graduate student grants and Excellence Scholarships are indications that someone in Washington is listening.

The Simon-Durenberger proposal is truly consumer oriented. Never have I seen a piece of financial aid legislation which addresses the real everyday problems of students and parents as this proposal does. The reaction by those of my staff who have reviewed it was one of excitement. The reaction of other Minnesota State University financial aid directors was likewise positive. I called the offices of Senator's Durenberger and Wellstone to inform their staff of my positive reaction to the beneficial features of the proposal.

I want to mention only three things about the proposal. They concern three very real frustrations people have with financial aid and how these frustrations are resolved in the Simon-Durenberger proposal.

First, students feel caught in a government sting operation with regard to loans. They must take them to remain in school. No loan, no school. They know that the future is uncertain. For some, the odds are against their repaying their loans in a timely manner. The economy, the geographic region, the family history, crime rates, divorce rates...many factors enter into student default rates. The current Guaranteed Student Loan programs guarantee defaults for a large segment of the borrowing population soon after leaving college, and the students know it. My point is that any loan program which uses as collateral the academic progress and potential earnings of the borrower, must either accept a high default rate on those loans or establish a method of addressing the default problem which is not to the detriment of the borrower. To put it another way, some students have a choice...loan or no school. When they graduate or leave school, they have a choice...pay or default. When real life problems occur, including the necessary consumer purchases as a refrigerator or pots and pans for a newly graduated and newly married couple, the choice may be default.

The IDEA Credit repayment plan provides exactly what students need...a reasonable way to repay their loans when starting out or when times are bad and a way to write-off the loans of those in cronic low income situations without ruining their credit. It seems to me that the government has no business loaning money out on the basis of potential earnings without either accepting a greater risk at the repayment end or providing a method of eliminating defaults completely. In this regard, the Simon-Durenberger proposal hits the bulls-eye, again.

Second, students are frustrated by the fact that someone is ripping them off. The frustration is from the responsible students who will repay their loans. Why should they be charged an origination and insurance fee of 7%? They want to know what is being done to those students who don't repay loans. The direct loan eliminates these charges and allows students to borrow the full amount of the loan at a reasonable interest rate.

Third, students are frustrated with the confusing repayment process. I believe there would be considerable savings in the IDEA Credit proposal at the institutional level. The management of student loans is simplified and streamlined. For example, our institution spends approximately 6-7 hours per week working with lenders and guarantee agencies regarding alleged defaulted loans of currently enrolled students, many of which were the result of erroneous mailing addresses and lost deferment forms. Removing someone from default may take weeks. Under IDEA Credit, there are no defaults. Students and parents will know where the loan came from (the federal government through the school), how much it was for (the face value of the amount borrowed), who they are to repay (the federal government), and where they repay the obligation (the servicer and the IRS). They will know that they will be tracked through the IRS and, therefore, are more likely to repay their loans. Since the IRS is tracking the same individuals for income tax purposes, it would seem that a duplication of effort could be avoided at considerable cost savings to the government.

The Simon-Durenberger proposal caught my attention as a positive consumer oriented act. The proposal addresses some major student financial aid issues head on...from a problem-solving standpoint. The problems I hear from students and parents every day have been addressed in this proposed legislation.

As with any bill this large and complex, opposition will surface armed, I am sure, with all of the facts and figures to prove this or that can't be done. I hope, in the process of marking-up the Reauthorization of the Higher Education Act, that you will remember the smoking phone and enact legislation which addresses some of the frustrations of the consumer.

The Written Testimony of:

Jerome H. Sullivan
Director of Financial Aid
University of Colorado

Boulder, CO 80309-0106

Earl Dowling
Director of Financial Aid
Iowa State University
Ames, IA 50011-2020

Joseph N. Camille
Director of Financial Aid
University of Missouri
Columbia, MO 65211

Mr. Chairman and Members:

We appreciate this opportunity to comment upon the Simon-Durenberger proposal to the Senate Committee on Labor and Human Resources.

In 1990-91, we administered nearly $100 million in Guaranteed Student Loans for approximately 30,000 students. We therefore have some considerable experience with the existing student loan programs both with the individual opportunities they have provided as well as the difficulties and frustrations they often present to our students from application to repayment. Default rates at our institutions range from 2.7 to 3.7. By that measure alone we might be considered to be operating relatively successful programs. However, we believe even this record can be improved upon if bold steps are taken to reconfigure this very important federal education program.

The loan program is so important to our students, in fact, that many have warned us not to speak out. It is thought by some that to "rock the boat" might jeopardize a "line of credit" that is absolutely critical to the educational dreams of hundreds of thousands of American families. We believe differently. Rather than assume a position of protecting what we have, we prefer to heed the warnings of the Nunn Report and other studies that say that the existing Guaranteed Student Loan model is dysfunctional to the extent that it will soon erode the overwhelming public support for government based student financial assistance for post-secondary education.

We believe that the existing program is too complex for the Department of Education and many of the participating schools to administer well. We also believe it is too complex for students and their families to fully understand the process of obtaining the benefit, and what their rights and responsibilities are once a loan is obtained. This situation has led to instances of fraud and abuse that have embarrassed students as a group, schools, and the Department of Education.

The complexity is a direct result of too many players in the program; i.e. students, schools, lenders, guarantors, secondary markets, and service agencies. A simple model with fewer players is needed.

We also believe that the existing loan model is more expensive than the proposed direct loan model would be. All of the previously mentioned agencies participate because of a perceived benefit to themselves. It seems only common sense that eliminating those not directly involved in the educational process would save program costs. Our experience with the existing direct loan program, (Perkins), is that it is easier to administer for all parties concerned. The Credit Reform Act now makes it possible for this cheaper model to be used on a larger scale without increasing the federal budget deficit.

The Secretary of Education has recently suggested that the Department of Education is not prepared to handle a direct loan program. We would respectfully suggest that the Department is prepared to handle the direct loan programs as proposed in both the House and Senate committees. Both proposals lead directly to the strengths and experience of the Department. That is, of administering contracts and regulating schools. We believe that with reasonable development time, and with the use of negotiated rule making, the Department will be able to guide us out of the loan difficulties we have all been experiencing over the past decade.

As school aid administrators, we are confident we would be able to administer a direct loan program.

We have not had sufficient time to study the different loan collection models offered in the House and Senate versions of the direct loan program. We feel however, that whether or not the Internal Revenue Service, or contracts with collection agencies is used, the direct delivery of funds to students through schools is a significant improvement over the existing guaranteed loan program. By itself, this approach will save both student and government money. We also believe that the reduction in complexity will lead to a reduction in fraud and abuse.

We also commend to you, at the same time, a single and free need analysis formula and application. We recommend for those schools assisting upper middle income families with private funds, freedom to collect additional financial information through a fee collecting service.

Adoption of the direct loan concept and the need analysis points mentioned above will make significant progress toward Congress's stated goal of simplifying the delivery of federal student aid.

Glenn C. Sharp

NORTHWEST KANSAS AREA VOCATIONAL-TECHNICAL SCHOOL

Goodland, Kansas

## IDEA CREDIT - DIRECT LOAN PROGRAM

Thank you for the opportunity to comment on the Simon-Durenberger proposal for a direct loan program. My name is Glenn Sharp and for 25 years I have administered the financial aid programs at the Northwest Kansas Area Vocational-Technical School in Goodland, Kansas. I am active in the financial aid administrators associations at the state, regional and national levels and currently serve as immediate past-president of the Rocky Mountain Association.

Our institution is a small technical school with less than 500 students and we enjoy a nationwide reputation for training quality technicians. If you used your telephone for long distance service today, chances are one of our telephony graduates was the technician who made the call possible. Nearly 80% of our students receive some form of financial assistance. Annually, we help students process nearly $500,000 in Pell Grants and a similar amount in Stafford loans.

I support the proposal for a direct loan program. When Representative Andrews introduced H.R. 3211, a bill to establish a direct federal lending program under which the existing GSL program would be consolidated, I was excited. However, in spite of its positive steps to simplify the student loan process and bring it under better fiscal control, it still does not go far enough. The repayment stage still involves a "servicer", I interpret the servicer to be similar to existing secondary markets in the GSL program. The direct loan program needs to eliminate lenders, guaranty agencies and secondary markets.

For several years I have advocated a payroll deduction system for the repayment of student loans. If a student works, the student pays for the educational loan. If a student does not work, we better evaluate the educational system. When I read about the Simon-Durenberger proposal of the "Income-Dependent Education Assistance Credit" I was satisfied that this is a solution to the repayment problems in the student loan program.

Students at our institution currently have 8% or $210 (on a maximum loan of $2,625) deducted from their student loan checks. This is money which could be used when it is needed for educational and living expenses. At our institution, students would have over $40,000 available each year for their education if origination and guarantee fees were eliminated. These are real dollars saved for students.

The loss of the in-school interest subsidy for students was first viewed as a negative. But, after further review, I consider it to be a positive step. Under the IDEA-CREDIT proposal, the in-school interest which will accrue becomes an expense of borrowing money but the payment can be deferred to the repayment period when a student is working and earning income. The idea of a non-subsidized loan may deter some students from borrowing - even if they show "need" on paper. I believe many students borrow because it is an "interest-free" loan. We explain that the origination and insurance fees have to be considered as interest, but students still view the loan proceeds as "free" money. The non-interest subsidy opens up the loan program to all students, regardless of family income.

A criticism of the direct loan program by post-secondary institutions is the perceived increased administrative responsibilities. I have flow-charted the process at our institution and I do not see that to be true. None of the current Stafford loan institutional eligibility functions will change under direct lending. The September 27, 1991 GAO report supports the concept of simplicity in administering the direct loan process. I welcome the time saved by not having to help present students and graduates play the game of "LOAN, LOAN, WHO HAS MY LOAN".

Another concern I hear from colleagues is the fear, real or imagined, that Congress will not adequately fund the direct loan program. The direct loan program must be an entitlement. Many financial aid administrators are disillusioned with the appropriations of the Pell Grant and other Title IV programs during the past decade. I too am concerned that the Simon-Durenberger proposal of a $600 increase in the Pell Grant maximum does not address the issue of the imbalance of loan/grant in student financial aid.

I am certain of one thing - the concept of direct loans is good for students. It will provide more money for students while they are in school by eliminating origination and insurance fees. It is time millions of dollars in deducts each year are kept in the pockets of students.

A real problem for students in the present student loan program is understanding the role of the lender, guarantor and secondary markets. Most students do not have any relationship with the lender, let alone the entity that eventually holds the paper during repayment. Let's put the responsibility of the loan with the post-secondary institution. Schools establish a relationship with the student and already help with the loan processes. It makes sense for schools to obtain the signed promissory note and deliver the loan they have certified. The students entire financial aid package would come from the same source - the institution. This is much better for students because it is easier for them to understand.

The income-sensitive pay back is also logical and simplifies the repayment process for students. Let us begin to concentrate on the positive aspects of repayment. The most recent cohort default rate (FY89) for our institution is 11.1% That is an increase from our FY88 rate of 6.8%. We are a two-year public institution and have a high percentage of "at-risk" and non-traditional students. We try very hard to help our students successfully repay their loans. The profile of a typical defaulter at our school is a single-parent, female, age 28, with two dependent children. Immediately out of school, this person does not earn enough money to pay for food, rent, other living expenses and the student loan payment. The IDEA Account allows persons in this predicament to work and in time build an income level high enough to make good on their loan obligations. It is a positive repayment process instead of the negative black hole of default.

The IDEA Credit proposal is the student loan program of the future. It needs to be enacted in the re-authorization plan today.

## Elizabeth M. Hicks
## Coordinator of Financial Aid for Harvard Univeristy
## and
## Assistant Dean of Admissions and Financial Aid for Harvard and Radcliffe Colleges

Mr. Chairman, Members of the Committee: My name is Elizabeth M. Hicks. I am Coordinator of Financial Aid for Harvard University and Assistant Dean of Admissions and Financial Aid for Harvard and Radcliffe Colleges. As a result of conversations with my colleagues, I believe that my comments reflect the views of educational institutions who have been involved in the exploration, analysis, and comparison of direct lending proposals.

We are grateful that the recent and extensive debate on the merits of direct lending have been afforded this opportunity of review and discussion by the Senate. We commend Senators Simon and Durenberger for their leadership in developing a new, simpler student assistance program called IDEA Credit, with income-sensitive payback through the Internal Revenue Service.

It is no secret that our largest source of federal student loans, the Stafford Loan program, is in trouble and that more than tinkering is required to fix it. Originally a loan of convenience for middle income families, the Stafford loan has evolved into a loan of necessity for students from low- and middle-income levels, yet the partnership concept on which the program was founded over twenty-five years ago has not changed.

We believe that replacing the Guaranteed Student Loan program with a direct loan program will address the major problems confronting the current system. We further believe that direct lending is more beneficial to federal student aid recipients. I would like to mention several key features of direct lending that support these statements.

**• Problems with access to loan funds are eliminated.**
By making educational institutions the originators of loans, students have direct access to loan funds from one source for their entire program of study. The fact that a direct loan program would be an entitlement -- and that the amount of capital would not be limited by a fixed total amount of cap per year -- further assures universal access to loan funds by students enrolled in all sectors of postsecondary education.

**• Costs are contained.**
Under direct lending, the costs of the current program are brought under control. First, by capitalizing the loan program, the federal subsidy paid to lenders is eliminated. Second, with a simplified

administrative structure for the program, efforts are refocused on ensuring greater quality, especially in the services provided to borrowers during repayment. This would be a major factor in bringing default costs under control.

*** Cost savings are used to address other needs of students.** Savings accrue because direct lending enables the federal government to secure student loan capital by paying wholesale rather than retail prices. Savings can be used to reduce borrowing costs for students, expand eligibility under the program to students from middle income families, or fund grants to correct the grant/loan imbalance.

In order to understand the true benefits of a direct loan program, one has to dispel the misconceptions about direct lending. Three of the most common misconceptions with respect to the role of educational institutions concern administrative burden, accountability, and risk sharing.

*** Administrative burden for schools decreases under direct lending.**
Institutions, such as Harvard University, that have studied direct lending believe it eases administrative burden and serves students better. The experience with the Perkins Loan program demonstrates that all schools, large and small, automated or not, have the administrative capability to make loans while significantly reducing the complexity, amount of paperwork, and unnecessary delays in the disbursement of loan proceeds.

*** Opportunities for fraud and abuse are minimized under direct lending.**
Without lenders, guarantee agencies, and secondary markets to oversee, the Department of Education can focus its efforts on schools, servicers, and collection agencies. Under direct lending, a school that is determined to abuse the system no longer has the ability to process loans through multiple lenders and guarantee agencies. A school's entire loan volume can be carefully monitored through a centralized system.

*** Institutional risk is not increased.**
The probability of institutional error is reduced through the eliminations of lenders and guarantors and their multiplicity of policies, procedures, systems, and forms. Any school that can perform need analysis, process a Pell Grant, or deal with the complexities of the current Guaranteed Student Loan (GSL) system, can handle direct loans. For the student, as well as the institution, the application process would be similar to the Pell Grant program. Instead of endorsing a check, a student would sign a standardized promissory note that the institution would immediately forward to the servicing agent in order to draw down the loan funds.

Direct loans offer a rare opportunity to increase federal support for students without increasing annual appropriations. In particular, the Simon-Durenberger proposal results in considerable savings through the elimination of special allowance payments to lenders and the in-school subsidy for students. These savings are then shifted to expand loan eligibility to all students without regard to family income, to support increased grant assistance for undergraduate and graduate students, and to fund important early intervention and incentive programs for at-risk students.

While modifications to direct lending proposals may be necessary, what we must guard against is the temptation to apply some of the basic and interconnected concepts of these proposals to the current GSL system and expect that we will end up with a viable program. For example, if the elimination of the in-school subsidy -- an intricate feature of the Simon-Durenberger plan -- were applied to the current GSL program, it would result in a powerful disincentive to low- and middle-income families to pursue postsecondary education. In addition, the elimination of this important in-school subsidy would also discourage students from pursuing a graduate/professional degree due to the length of this program and the problem of capitalization of the unsubsidized interest.

I would like to make one other cautionary remark. If Congress decides to remain with the current GSL system, loan limits must be increased. The House proposal for reauthorization does not call for increased GSL limits, except under direct lending. The Senate proposal, as it currently stands, call for very modest increases in the GSL loan limits. Some graduate and professional schools have even expressed concern that the higher loan limits under the Simon-Durenberger proposal will not serve students' borrowing needs into the next century.

In closing, the primary goal for reauthorization should be to ensure that the federal financial aid programs serve the needs of the students for whom they were designed. To do this we must simplify the delivery system and better target funds to students' direct educational costs, rather than to the bureaucracies that support the delivery system. For this reason, Congress should press ahead and replace the current GSL system with a direct loan program.

As you consider the Simon-Durenberger proposal, I also commend to you the House Education and Labor Committee proposal on direct lending. The hallmark of both of these proposals is the creation of a new financing mechanism that will result in increased funding for students.

I thank you for the opportunity to make these comments.

Senator SIMON. Then finally, Mr. Chairman—and Mr. Secretary, you used to be in business; you are interested in that bottom line. The bottom line is that this year we are going to spend $3.8 billion in student loan defaults. This proposal, by having the IRS collect it and have it on a T-bill plus 2 percent means that for all practical purposes we will eliminate the student loan default problem for the Federal Government. Now, you don't eliminate it tomorrow, but you do over a period of time. You make college much more accessible to people in this Nation. It just seems to me everyone comes out a winner. And we ought to be willing to do something that shows a little courage.

I'd like to see the President of the United States next year say "I am the education president, and look what I have done for higher education."

Thank you, Mr. Chairman.

Senator PELL. Thank you very much. I have received several letters in regard to proposals for a direct loan program. Some of these specifically address the Simon-Durenberger proposal that is the subject of our hearing today. If there is no objection, I would like to include these letters in the hearing record.

[Letters follow:]

STATE OF CALIFORNIA PETE WILSON, Governor

CALIFORNIA STUDENT AID COMMISSION
P.O. BOX 510845
SACRAMENTO, CA 94245-0845
(916) 322-1904

The Honorable Claiborne Pell
Senate Labor and Human Resources Committee
SD-428 Dirksen Senate Office Building
Washington, DC 20510

Dear Senator Pell,

I am writing to urge you to oppose the Higher Education Act amendments that will be offered to the Committee by Senators Simon and Durenburger based on their bill, S 1845. The current Senate reauthorization bill proposes many reforms of the present guaranteed student loan program that will strengthen the programs and assure students of adequate financial aid for quality education and training. In contrast, the Simon/Durenburger proposals would discard the currently effective financial aid delivery system in favor of an untested system with doubtful program savings.

There are three major shortcomings in the Simon/Durenburger plan for direct federal lending. It would cost the federal government more to operate than the present system, it would add complexity to the delivery system, and it would do nothing to reduce defaults or enhance collections. Senators Simon and Durenburger base their estimates on direct lending program savings from a General Accounting Office report that seriously underestimates the true costs of operating a federal loan program. The projected $1.4 billion in savings cited in the G.A.O. report do not take into account the substantial costs associated with conversion to the new system, realistic servicing costs or historic default rates. When these costs are properly counted, the direct federal lending program costs more, not less than the current system.

Senators Simon and Durenburger's direct lending proposals would require the Internal Revenue Service to collect on student loans at a time when it is already faced with the task of collecting on billions of dollars in unpaid taxes. Moreover, studies on the characteristics of student loan defaulters show that the great majority of borrowers who default are unable, rather than unwilling to repay because they are not employed. I.R.S collection efforts would do nothing to recover the substantial amount of defaulted dollars from unemployed borrowers while it would add enormous complexity to the loan programs.

The guaranteed student loan programs represent a federal-state partnership that effectively delivers over $12 billion per year in financial aid to students. The Senate's reauthorization bill proposes reforms in the current programs that will enable them to continue to provide financial aid to deserving students throughout the 1990's. If I can be of further assistance or if you require further information, please contact our office.

Sincerely,

Samuel M. Kipp III
Executive Director

WESCO
WESTERN COMPUTER SERVICES

Livery Square
33 Neill Avenue
Helena, Montana 59601
Telephone: 406/443-5491

October 28, 1991

Senate Committee
Labor and Human Resources
United States Senate
Washington, D.C. 20515

Dear Committee Members:

WESCO is very concerned with the impact any proposed legislation calling for a direct loan program. As a software development firm that has focused our development efforts on providing state-of-the-art information systems for the Guaranteed Student Loan Program, our 400 plus clients include guarantee agencies, secondary markets and hundreds of student loan lenders.

We go on record as opposing a direct loan program. Our observation is that many important details have not been sufficiently thought through, including the enormous costs and the rip tide effects of such massive changes.

When the details of how such a program would work are carefully examined, it becomes clear that not only will such a program *not* save a billion dollars a year, but may actually increase the costs of administering the student loan program. The direct loan program may effectively reduce resources for financial assistance to fund higher education. Both the immediate and long term effects will be detrimental to students.

Who will pay for the administrative costs of a direct loan program?

> Schools currently have difficulty accurately tracking enrollment status of students. The key to success for any program is the fast, accurate flow of information. This fast, accurate flow of information is entirely dependent on information systems. The capital outlay that the student loan industry will have to come up with to accommodate major changes of any kind is tremendous.
>
> If schools are required to pay for the systems, the costs will be passed onto students through tuition increases, there-by canceling out the benefits of increased aid. If the federal government is to pay for the cost of administering, then the promise of a billion dollars in savings is grossly overstated.
>
> Massive changes will waste literally billions of dollars that have been invested in information systems to administer the current program.

Information systems have now caught up with the current program, so for the first time in the history of the program all the participants have access to adequate support systems to allow the program to run smoothly. Benefits from these state-of-the-art systems can now begin to be fully realized.

How will a direct loan program effect default rates?

The direct loan program does not address default rates, instead it takes the focus *away* from defaults. Yet by far the most costly aspect of the student loan program and the issue with the most pressing need to be adequately addressed is the problem of loan defaults. For fiscal year 1991, loan defaults cost a record 2.3 billion dollars and estimates are it will be even higher this year.

Making more grant money available to the neediest of students and providing more access to student loans for middle income students will indirectly reduce some of the source of high loan defaults. But, a direct loan program opens the door for continued fraud and abuse by schools by taking out an important set of checks and balances. This structure will also place 100% of the risk of defaults on the federal government, risk that is currently being shared by lenders and guarantors.

What immediate impact will a bill calling for a direct loan program have on the student loan program?

In our interviews with lenders across the country, we found that if lenders are given the clear message there is no future for them in student loans, they will abandon the program in droves. This could dry up the availability of funding for students, leaving little access to students for loans, until the new program is implemented sometime in the future.

Are there more realistic ways of saving a billion dollars by simply modifying the current program?

By cutting the current default costs of 2.3 billion (1991) in half, a savings of over a billion dollars will be realized. The money for increased grants and assistance for middle income families can be obtained by cutting default rates. Cutting default rates is *not* a focus of the direct loan program.

Can the current program work well with a few vital changes or does it really need a massive overhauling?

We firmly believe that the current structure of the Guaranteed Student Loan Program is sound. The *current* problems are not a result of the program as it stands today. Many of the shortcomings, abuses and oversights that have resulted in the problems we are seeing today are being addressed. The result of recent measures to curb inefficiencies and abuses will come to harvest in the next several years.

What are the changes WESCO recommends should be made to the Student Loan Program?

> Set up an effective method of policing schools. High default rates can be directly attributed to fraudulent schools.
>
> Lenders are experts at collecting on defaulted loans. Create regulations that provide lenders incentive for collecting on defaulted loans rather than current incentives to simply protect the loan guarantee. Complex due diligence currently requires lenders to focus all their time and resources on following ineffective procedures instead of being able to focus on supporting students in paying back their loans.
>
> Consistency must be legislated so that the constant modifications to the regulations cease. The changes that come out of Reauthorization need to be given a chance to work. Much of the dysfunction in the current program is a direct result of the software development industry's lack of ability to keep up with complex, volatile regulations that can change overnight.
>
>> (A good example are the changes now facing programmers surrounding the Budget Reconciliation Act. One expert estimates those changes will require 200 days of programming in order to put lenders in compliance and 600 days of programming to put guarantors in compliance.)

WESCO stands firmly behind legislation that will realistically increase the effectiveness of getting funding into the hands of students. We will support legislation that focuses on the most costly and pressing problem facing the Guaranteed Student Loan Program today, the problem of skyrocketing default rates. Massive changes, such as a direct loan program will take enormous time, money and resources to properly implement. The opportunity to save the American taxpayer billions of dollars by addressing default rates will be lost in the thrust to set up the new program.

In recent years much attention has been paid to increasing the integrity and accountability of the current student loan program. If the focus continues to stay on reduction of default rates, cracking down on fraudulent schools, and streamlining the administration of the loan program with proper information systems, the payoff of these measures will be seen for many years to come.

Sincerely,

Dana B. Glatz
CEO
WESCO

AMERICAN COUNCIL ON EDUCATION
Division of Governmental Relations

October 28, 1991

The Honorable Claiborne Pell
Chairman
Subcommittee on Education, Arts and Humanities
Committee on Labor and Human Resources
United States Senate
335 Russell Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

We have reviewed S. 1845, which was submitted to the Committee on Labor and Human Resources by Senators Simon and Durenberger as an amendment to S. 1150, which would reauthorize the Higher Education Act.

Since the amendment was first made public during the mark-up of the Subcommittee on Education on October 24, there has not been sufficient time to explain the provisions of the amendment to our institutional members and get their reactions, nor do we have adequate analysis at this point to share with them. The amendment would make large-scale complex changes to the federal loan programs, and would transfer substantial subsidy from the loan programs to the grant programs. The changes affecting grants would largely duplicate those provided in S. 1150. These changes to grants and loans would collectively have dramatic impact on the amount of assistance received by millions of students. The following comments on federal loans are based on the positions developed by the undersigned associations during several months of deliberations prior to the transmittal of our reauthorization proposals to Congress in April.

The most dramatic change under S. 1845 would be the abolition of the Stafford loan program, and its replacement by an unsubsidized federal loan program. The major subsidy in the Stafford program is that the federal government pays all interest on the student's behalf while the student is in school. This elimination of in-school interest subsidy would significantly increase the indebtedness of needy students. We cannot support elimination of subsidized federal loans and substitution of unsubsidized federal loans.

The increased debt of borrowers with low-incomes after leaving school could result in extreme hardship for students who have low incomes after graduation. If their incomes were not sufficient for their loan payments to cover the interest as it accrues, the borrowers' debts would continue to increase during repayment, resulting in negative amortization.

One Dupont Circle, Washington, D.C. 20036-1193 (202) 939-9355
FAX (202) 833-4760

Under S. 1845, student loans would be financed with capital obtained by Treasury borrowing. We support this concept and have recommended that institutions have the option to participate in a new federal loan program based on Treasury borrowing that has in-school interest subsidy as does the Stafford loan program. We have recommended that the Stafford loan program, and the SLS and PLUS programs, be continued throughout the period of the next reauthorization, while the direct loan program is being phased in, to allow Congress to make any needed legislative adjustments.

Under S. 1845, loans with income-contingent repayment would be an entitlement to all students enrolled half-time or more who apply. The formulas underlying income-contingent repayment are extremely complex. We need further analysis, including that of outside groups such as the Congressional Budget Office, to evaluate fairly the progressivity factors in S. 1845 that determine how much borrowers would repay, and which categories of students would receive greater or lesser benefits, and to assess both the federal cost implications and the impact on institutional workload. A further important consideration is that broad-scale income-contingent repayment requires much more sophisticated counselling of students on the impact of loans on their after-college income, which they cannot know at the time they assume the debt.

Because many borrowers now have legitimate hardships on entering repayment, we proposed a flexible repayment plan in our legislative package to provide income-contingent repayment on an exception basis for students with excessive debt service in repayment; we believe this proposal is more manageable for the government and institutions. It allows most students to repay on a standard amortization basis under which it is easier for students to understand the amount of principal and interest owed.

Much more extensive analysis and negotiation with our institutions is needed before we could develop a position on the desireability of income-contingent repayment for all students. We recommend that legislative consideration of full-scale income-contingent repayment be deferred pending this process.

Sincerely,

Charles B. Saunders Jr.

Charles B. Saunders, Jr.
Senior Vice President

On behalf of:
American Association of Community and Junior Colleges
American Association of State Colleges and Universities
American Council on Education
Association of American Universities
National Association of Independent Colleges and Universities
National Association of State Universities and Land-Grant Colleges

**United Negro College Fund, Inc.**
1025 Vermont Avenue, N.W.
Suite 810
Washington, D.C. 20005
(202) 737-8623 FAX (202) 737-8651

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President and Chief Executive Officer

**MICHELLE D. STENT**
Vice President
Government Affairs

October 22, 1991

The Honorable Claiborne Pell
Chairman
Subcommittee on Education, Arts
and Humanities
648 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

On behalf of the 41 member institutions of the United Negro College Fund (UNCF), I am writing to convey our support for S.1150, your discussion draft of the Higher Education Act reauthorization bill.

We commend your strong commitment to securing enactment of a Pell Grant entitlement for low and middle income students. The draft clearly addresses the cause of equal opportunity for minorities in higher education.

We are concerned however, about possible legislation that Senator Simon may introduce to create a campus-based; direct lending program during the Education, Arts and Humanities subcommittee mark-up. We at the College Fund would like to let you know our position on this proposal.

While we believe that there may be some benefits to the direct loan concept; those benefits are far outweighed by the extreme financial and administrative burdens placed on UNCF institutions by the transfer of lending and collecting responsibilities to institutions of higher education.

Dr. John L. Henderson, President of Wilberforce University in Ohio presented UNCF's views during his March 21, 1991 testimony before your Subcommittee. In response to a question from Senator Kassebaum on the advisability of initiating a direct loan program, Dr. Henderson said:

> "I can't speak for all college and university presidents, but I certainly feel that Wilberforce University does not want to be in the lending business nor do we want to be in the debt collecting business. We are primarily educators, and whereas we are concerned about students finding assistance to enable them to pursue a college degree, a college education, I just simply don't think lending money and collecting those debts really is in the purview of an educational institution..."

"A mind is a terrible thing to waste"

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Page 2
Letter to Pell
October 22, 1991

Dr. Henderson adequately expressed the views of our member presidents on this concept. Our member institutions do not have the resources, fiscal or administrative, to carry out this responsibility. Direct loans are a burden that our member institutions simply cannot handle. In our view, they should not be compelled to operate a direct loan program if they believe that they will be unable to do so.

Most UNCF member institutions financial aid offices employ 3-5 full-time professionals. They not only dispense aid to our students -- 90 percent of whom receive some form of Title IV assistance -- but they also provide entrance and exit counseling for Stafford Loans, in addition to fulfilling other federal mandates related to Selective Service and drug free workplace compliance requirements. Almost all of our 41-member institutions will not be able to undertake the new tasks imposed by a direct loan program without significantly increasing the size of their financial aid office staffs.

Smaller institutions such as ours do not have the resources to implement the level of management required to institute and successfully administer a direct loan program. The proposed per loan processing payment to institutions, if appropriated, is insufficient to reimburse institutions like ours which are not in the lending business. Our institutions are primarily educators and are not equipped to be involved in the banking arena.

The fiscal and administrative implications of this potential forced undertaking would prove disastrous for UNCF students and our institutions. If this bill comes before the Subcommittee, we urge you to vote against it.

Thank you again for your continued support and commitment to HBCU's. We offer you our support during the reauthorization process.

Sincerely,

Michelle D. Stent
VP-Government Affairs

cc: Subcommittee on Education, Arts & Humanities
Hon. William H. Gray, III
UNCF Member Presidents

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[redacted]

The Honorable Claiborne Pell
United States Senate
Washington, DC 20510

Dear Senator Pell:

I am writing to express my serious concern about Senator Paul Simon's proposal to add direct lending to the Senate bill to reauthorize the Higher Education Act of 1965.

In general, I am very pleased with the draft of S. 1150. However, Senator Simon's proposal now requires you to evaluate direct lending. I believe that the direct lending issue should be considered as a pilot program, if at all.

On the surface, the direct lending proposal has a lot of popular appeal. However, it lacks substance; many details have not been thought out. As written, the proposal is complicated and confusing. Some of my concerns include the following:

1. The proposal infers this would be a no-cost program. It does not address:
   - The costs to the government of borrowing money to lend. The Guaranteed Student Loan program is the only Title IV program that depends primarily on private capital as its major source of funding.
   - The costs of government administration of the program.
   - The costs to institutions to administer the program.
   - The costs to the federal budget in student loan defaults.

2. At the beginning of the phase-in of the program, lenders would immediately withdraw from the Stafford, PLUS and SLS programs. Students would be denied access to a postsecondary education during this period.

3. Using the IRS as a collection agency would ensure that Americans who do not file income tax returns will not repay their loans. It gives citizens another excuse not to file.

Admittedly, there are problems with loan programs today, but they are being solved. Default rates have not risen appreciably, although the volume of loans and loan defaults have. Default prevention efforts have started to work -- but they need more time to be truly effective. The Senate draft bill includes integrity provisions that will go a long way toward improving the programs.

I strongly urge you to reject Senator Simon's proposal and to proceed with consideration of the draft bill as presented. Thank you.

Sincerely,

Cheryl Murphy

Cheryl Murphy
President

ART INSTITUTE OF SEATTLE

October 28, 1991

The Honorable Senator Pell
United States Senate
Washington, D.C. 20510

Dear Senator Pell:

Last week Senator Paul Simon proposed a direct lending program called IDEA Credit to the Senate Education, Arts and Humanities Subcommittee. I am writing to express my serious concern against this proposal.

It appears Mr. Simon chose to work on his own agenda as opposed to working through the Senate Subcommittee. Previously, the Senate's original mark-up was well intentioned and suited to the most central needs of today's post-secondary students. This last minute introduction of a direct loan program by Mr. Simon is not well thought out and threatens to slow and/or break down the progress of a bill we are quite pleased with.

Specifically, the proposal does not address the costs to the government for borrowing money to lend, the costs of government administration of the program, the costs to institutions to administer the program and the costs to the federal budget in student loan defaults. And, it is widely anticipated that at the phase-in of the program, lenders would immediately withdraw from the Stafford, PLUS, and SLS programs, thus denying students access to a postsecondary education during that period.

I support the test or trial direct loan concept. I do not support Senator Simon's proposal. I urge you to reject Senator Simon's proposal and proceed with consideration of the draft bill as originally presented by your committee.

Respectfully,

David J. Pauldine
President

2323 Elliott Avenue, Seattle, Washington 98121 ■ (206) 448-6600 Admissions ■ (206) 448-0900 Administration
A member of the Design Schools

ART INSTITUTE OF PHILADELPHIA

October 28, 1991

The Honorable Claiborne Pell
United States Senate
335 Senate Russell Office Building
Washington, DC 20510

Dear Senator Pell:

I am writing to you to express my reservations concerning Senator Paul Simon's proposal adding direct lending to the Senate bill to reauthorize the Higher Education Act of 1965.

I would like to begin by saying that I am extremely pleased with the draft of S. 1150. Senator Simon's proposal, however, requires an evaluation of direct lending, an issue which should be considered solely as a pilot program, if considered at all.

At first glance, the Senator's proposal for a direct lending program is very appealing. After further reflection, however, I have come to believe that the recommendation sorely lacks substance; indeed, many details have not been thoroughly considered. I have a number concerns.

For example, the proposal infers that the program would be a no-cost one and it fails to address the issue of costs to the government of borrowing money to lend. The Guaranteed Student Loan program is the only Title IV program depending primarily on private capital as its major source of funding. The proposal also does not consider the costs of government administration of the program, the costs to institutions to administer the program and the costs to the federal budget in student loan defaults.

In addition, at the outset of the introduction of the program, lenders would immediately withdraw from the Stafford, PLUS and SLS programs, thus denying students access to a postsecondary education during this period.

And finally, using the Internal Revenue Service as a collection agency would ensure that Americans who fail to file income tax returns will not repay their loans. Essentially, the proposal provides citizens another excuse not to file.

Indeed, there are problems with loan programs today, but there are solutions as well. Although the volume of loans and loan defaults has increased, the default rate has not risen appreciably. Default prevention efforts have begun to work; nevertheless, they need more time to be truly effective. I believe S. 1150 includes integrity provisions that will go a long way toward improving these programs.

As President of The Art Institute of Philadelphia, I strongly urge you to proceed with consideration of the Senate Draft bill as presented while rejecting Senator Simon's proposal. Thank you.

Sincerely,

[illegible] Tuder, Ph.D.
President, The Art Institute of Philadelphia

1622 CHESTNUT STREET PHILADELPHIA, PA 19103-5198 215-567-7080

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BRYANT
COLLEGE

OFFICE OF THE PRESIDENT

October 7, 1991

The Honorable Claiborne Pell
U.S. Senate
SR-335 Russell Senate Office Building
Washington, DC 20510-3901

Dear Senator Pell:

I am writing to convey my concerns regarding the House Subcommittee's reauthorization proposal that would abolish the Guaranteed Student Loan Program and in its place establish a Direct Student Loan Program. A direct federal lending program as proposed would seriously affect a substantial number of Rhode Island students and families and also add enormously to the administrative responsibilities of increasingly smaller and overburdened colleges and universities staffs.

My specific concerns are as follows:

First, the current structure works quite well and takes full advantage of incentives that exist in our public/private partnership. Even the proponents of the direct loan program preface their statements by acknowledging that the current program works well in many places -- especially in New England.

Within the framework of the existing program, guaranty agencies assume the responsibility of maintaining a quality program and through the years have developed sophisticated systems to support the program. The current program also provides incentives for lenders and guarantee agencies to control defaults and program costs. The Rhode Island Higher Education Assistance Authority has had demonstrated high quality program management. In 1990, its trigger default rate was 2.06%. A direct loan program would remove many well established controls and incentives. I believe that the proposed program would most likely increase the administrative and default costs of the loan program.

Second, the proposed structure would place the guaranteed loan program at risk because there are no assurances or provisions for orderly dismantling of the current program. While there is language in the proposed bill to pay an administrative allowance to guarantee agencies, it's unclear whether this fee is sufficient to adequately meet the ongoing financial needs of these agencies. It is reasonable to assume, given past experience, that the guaranty agency's administrative costs allowance would continually be threatened as annual budget targets are reviewed and appropriations allocated to support the loan program. If the direct loan program were adopted, it is reasonable to expect that the banks and thrifts, which provided $12 billion in new loans last year, will cease their lending activity well before the proposed replacement system could be phased in because the lenders would consider the present program a "dead-end" investment.

Third, proponents of the direct loan program assume that a direct loan program will yield substantial cost savings for the Federal government. They facilely project government savings of $1.4 billion in the first year of the program. A study conducted by Kidder, Peabody and Company for the Secretary of Education reported, however, that these savings are unlikely to occur.

Fourth, Not only will there be an increase in program costs, the national debt will increase because of the requirement for direct federal borrowing. In the first year, the debt will increase by roughly $15 billion and by $150 billion over 10 years.

Fifth, it must be remembered that under the proposed direct loan program, the U.S. Department of Education will be required to operate the current and the new programs until all outstanding guaranteed loans are paid off. The Secretary of Education has already clearly stated that the Department of Education could not effectively manage a direct loan program. The additional expense incurred by the Department of Education, servicers, and higher educational institutions to establish systems and controls to manage a direct loan program would be enormous. Given present and certain future institutional budget cuts, the availability of sufficient resources to establish the new systems is a major issue to carefully weigh in your deliberations.

Lastly, the overarching and most significant concern is that the proposed program will create a system that will have inequitable access for students and families as its fundamental flaw. A student's ability to secure a loan would be determined by an institution's willingness or ability to administer a direct loan program. It's unlikely that all eligible higher educational institutions would be able to develop, on a timely and equally effective basis, the ability to administer a direct loan.

Without an unambiguous commitment of ongoing program support for all concerned parties, it is unreasonable to assume that access would be preserved either through a complex transition period or afterwards. Without such a commitment, lenders will cease to participate in the guaranteed loan program and the very students whom the programs were designed to help will be denied equitable access to higher education.

Thank you for taking the time to consider my concerns. If you have any questions or comments, please call me at 401-232-6008.

Sincerely,

William E. Trueheart

William E. Trueheart
President

cc: Dr. Richard F. Rosser, NAICU
Elwood G. Farber, RIHEAA

# STATEMENT OF

# LAWRENCE A. HOUGH

## PRESIDENT AND CHIEF EXECUTIVE OFFICER

## STUDENT LOAN MARKETING ASSOCIATION

Sallie Mae welcomes the opportunity to submit this statement to the Committee on Labor and Human Resources regarding proposals to convert the Guaranteed Student Loan Program (GSLP) into a system of direct loans, including the proposal included in S.1845, The Financial Aid for All Students Act of 1991. As this committee is well aware, Sallie Mae is the largest single holder of guaranteed student loans and has provided funding for $40 out of every $100 of Guaranteed Student Loans outstanding. We are not a disinterested bystander in the current deliberations regarding direct lending. As the largest holder, the largest servicer, and the largest investor in student loan data processing systems, Sallie Mae's experienced perspective affords a unique vantage point from which to comment on the ability of direct loan programs to serve the nation's need for education credit.

### Why Abandon A Quarter Century Of Success?

In 1965, Congress created a unique model of a public/private partnership and charged it with the crucial task of providing education credit assistance to, initially, thousands of American families. Before abandoning the existing Guaranteed Student Loan Program, we urge this committee to carefully consider the extraordinary track record of success the program has forged over the past 26 years. The structure included in the Higher Education Act of 1965 has proved remarkably resilient, yet malleable enough to adapt to the changing demands of the marketplace. The program which now serves more than 3 million students and parents each year has evolved over time and has absorbed, without any disruption, numerous modifications designed to improve the flow of funds, minimize loan defaults, and otherwise ensure the integrity of student loans. Over the years Congress has painstakingly worked to perfect this system, including the establishment of appropriate incentives for lenders to make loans, the creation of Sallie Mae to ensure the continued availability of loan capital, and the refining of the guarantee mechanism that lies at the heart of the program. The end result is a national public/private partnership that provides a virtual certainty of loan access for students and parents and the uninterrupted fulfillment of the government's pledge to make funds available for qualified students to pursue a postsecondary education.

The advocates of direct lending are asking all of us to ignore this history and to embark on a great experiment, a course that could jeopardize the access of students to the financial resources they need to continue their education past high school. Direct lending would have us overlook the substantial benefits that accrue from involving the private sector in addressing public needs. Students and schools see these benefits every day in their interactions with the GSLP -- benefits that manifest themselves in the form of one-day turnaround for GSLP applications, electronic transmission of data from schools to guaranty agencies, counseling materials and loan management software designed by lenders and guarantors for use by schools, and customer service innovations developed by lenders and guarantors to serve borrowers in the most efficient and effective manner. The GSLP is a state-of-the-art program that can be expected to provide continually improving service well into the future.

No matter how one designs a centralized, federally administered program, it cannot possibly compete with the incentives that drive private sector entities to progress and excel. David Kearns, now Deputy Secretary of Education, captured this point and, most probably unbeknownst to him at the time, the essence of the GSLP system in a speech he gave at Cal-Tech prior to assuming his current position. In Mr. Kearns' words:

> We know what works: incentives to perform, standards to meet, rewards when those standards are met. That is the power of capitalism. Alone among economic systems, capitalism's free markets eliminate inappropriate, inefficient and anachronistic practices. **That, indeed, is the purpose of markets and the purpose of competition. Not to serve the owners of capital, not to serve the managers, but to serve the customers.** (emphasis added)

Before embarking on a direct loan experiment, we should ask ourselves why we would choose to move in the opposite direction from the rest of the world, which is rapidly moving away from centrally controlled allocation systems to free markets in a feverish attempt to take advantage of the types of private-sector resources, talents, and incentives of which Mr. Kearns speaks.

### Can The Department Of Education Assure The Flow Of Funds Under Direct Loans?

A shift from guaranteed to direct lending will place a huge administrative burden squarely in the lap of the U.S. Department of Education, one that the Department does not want. Secretary Alexander has already made it clear that he does not believe the Department is up to the task. Sallie Mae is inclined to take the Secretary at his word in this regard and urges this committee to carefully weigh the risks before it places students' and parents' future hopes of securing student loans with untested players, including the Department, which has rarely demonstrated efficiency, administrative capabilities, or timeliness in implementing congressionally mandated efforts.

The centralization of the responsibility for data management, funds control and disbursement, and administrative oversight in the Department assumes the existence of up-to-date levels of administrative capabilities and the use of sophisticated automated systems. As last year's hearings by Senator Sam Nunn revealed, the Department is far from up to date in its administrative and oversight capabilities and in its management of data for current programs. And, while Secretary Alexander has installed a promising new management team, it will be years, by the Secretary's own admission, before the Department can gain full control over its current responsibilities. While we are confident that the Department's new managers will accomplish the goals they have set for themselves, assigning it herculean new tasks at this time will only sap existing resources and worsen existing problems.

A single example of the underlying challenge is worth noting. In 1986, Congress assigned to the Department the task of developing a central data system for the reporting of data on the GSLP. We are all still awaiting the implementation, on even the most rudimentary level, of the National Student Loan Data System; and this system is being largely developed by private contractors, not by Department personnel. To expect the Department to design, develop, and successfully implement in a timely manner a data system capable of ensuring the reliable flow of funds under a direct loan program is wishful thinking at best. As Michael A. Gerber, President of the Connecticut Conference of Independent Colleges asked in a recent letter to Senator Dodd regarding direct lending, "Is the Federal government able to guarantee that it will administer the program so that loan capital will be available on a timely basis -- when it is needed by students and institutions?" Based on its past record, the answer to this question is not promising.

Can Schools Really Be Expected To Replace Lenders?

The success of a direct loan system will be dependent on the abilities of schools to assume the role that lenders play in the GSLP. There is no doubt that schools will have to make a major investment in time, personnel, systems, and other resources in order to successfully assume their responsibilities under a direct loan program. While some select schools over the course of several years may acquire and devote the resources to adequately develop a loan system whose structure effectively meets all government program regulations, there is mounting evidence that many schools will be reluctant and unqualified partners in delivering direct loans to their students. While it is conceivable that the largest universities might be able to handle such demanding responsibilities, more than two-thirds of the participating schools will be small and medium-sized colleges and trade schools that lack the skills and experience to manage such a system. In this time of retrenchment and belt-tightening on public and independent college campuses across the nation, it is unrealistic to force schools of all types to make the major investment in the infrastructure needed to administer a direct loan program.

Sallie Mae understands what is involved in originating student loans. In 1990, Sallie Mae provided origination operations support for 200 of our lender clients. Our development of a loan origination support program for lenders has grown rapidly over the past five years, yet today we support only a very small percentage of the total annual guaranteed loan origination volume. This, despite a significant effort to accelerate our capacity and cope with the very significant processing challenges and costs of loan origination. Moreover, our efforts to master the complexities of loan origination received a head start, because we could build our loan origination system from our existing loan servicing software.

The lessons from our experience are important to the direct loan debate. Developing loan origination capability is heavily dependent on access to well trained people and reliable systems. The three to six month origination cycle is replete with very challenging, fast paced activities. These include customer service provided by staff trained to explain the technical provisions affecting eligibility and processing, application screening and thorough review to ensure eligibility, and a continuous confirmation that the disbursement and post disbursement process meets strict financial auditing standards. We have found that there are over 100 discrete tasks involved in originating a student loan, that loan originators must prepare for severe seasonal variations in loan volume, that adequate customer service can only be provided through the use of sophisticated technologies and systems, and that extensive training and screening of staff is essential when an entity is charged with managing someone else's funds and interacting with students and their parents during the anxiety producing process of applying for and awaiting critical educational loan assistance. And finally, the origination process is very costly. Sallie Mae provides its origination services generally in instances where a lender is utilizing the corporation's secondary market support. The costs of providing this support on a broader basis would otherwise be prohibitive.

The extraordinary challenge this process represents is reflected in the expressions of deep concern from those representing schools in recent letters to Congress regarding direct loans. These concerns include:

> Our financial aid office simply does not have the resources, staff, or expertise to efficiently administer a student loan program." (Dolores Cross, President, Chicago State University)
>
> The vast majority of colleges and universities in this country are neither financially nor administratively equipped to take on all of the responsibilities of administering a high volume consumer lending program as agents of the federal government .... Oklahoma colleges and universities are facing new rounds of budget cutbacks. Placing additional responsibilities of this magnitude will cause unbearable hardships on our colleges and universities. (Hans Brisch, Chancellor, Oklahoma State Regents for Higher Education)
>
> Simply put, direct loans are a burden that our [UNCF] member institutions cannot bear. The fiscal and administrative implications of this undertaking are enormous and potentially disastrous for our students and their institutions. (Michelle D. Stent, Vice President for Government Affairs, United Negro College Fund)

The result of a switch to direct lending is certain to be the creation of an uneven playing field for students and parents -- some will receive high levels of service from sophisticated aid offices, others will find the dollars they count on caught in an administrative web that breaks down at the campus level. It is not that schools will not want to administer the program in an efficient manner, but that many will not choose or be able to devote the resources necessary to make direct loans. These schools may not wish to dip into academic budgets to fund direct loan operations, or reduce student services in one area to finance loan administration, or raise tuition or fees to cover the costs associated with direct lending.

While some suggest that schools which are poorly equipped to administer the program will be able to utilize contractors to provide the required service, the history of contractor provider support for Title IV programs, including Pell Grants, Perkins Loans and GSL collector services, is a history often marked by uneven, costly and limited service results. In instance after instance, experience has shown that when a very large federal contracting requirement develops suddenly, a number of contract providers fail to deliver desired service levels and subject their customers to serious and highly visible program failures.

Any significant breakdown in service by the government and its contractors or the schools and its contractors will have critical and immediate implications. Substantial delays in the receipt of funds by borrowers or inappropriate disqualification of students for eligibility are two very likely failures, neither of which is likely to be overcome by the timely intervention of a giant federal bureaucracy. A system which is over 95% effective would nevertheless leave 150,000 students and families without funds and effective recourse. It is not an exaggeration to predict such possibilities and their consequences. Nor is it irresponsible to predict that the uneven performance by colleges and contractors will exacerbate the financial difficulties of many struggling cash-short postsecondary institutions.

## Direct Lending Will Strain Federal Resources And Funds

There has been a great deal of variation in estimates of the costs and potential savings associated with a shift from guaranteed to direct lending. There is no doubt that direct lending advocates are seeking to take advantage of unintended accounting gimmickry that resulted from the 1990 Credit Reform legislation. But is there real money being saved, money that could be used to increase other forms of student aid or reduce the costs of borrowing for students? Direct loan advocates tout cost savings, but these tend to disappear under scrutiny.

While we have not yet seen an official cost estimate for S.1845, it is certain that such estimates will indicate that the long-term federal subsidies associated with direct loans are less expensive than those associated now with GSLP loans. However, it is just as important to examine the other costs associated with direct lending and to understand their implications for the federal budget and for other federal domestic programs, including student aid.

Direct loans will take significant federal resources to administer and schools can be expected to look to the federal government for reimbursement of the increased costs they incur. These administrative cost burdens are among those that are not included in the subsidy calculations required under credit reform, rather they only appear in the appropriated portion of the federal budget where they will count against the bottom line for domestic discretionary expenditures. When funds are allocated for these categories of costs they will compete with funding requirements of other student aid programs and a long list of worthy domestic initiatives, such as Chapter I, Head Start, and WIC. The new bureaucracy which would administer a direct loan program will require an annual budget estimated by the Department of Education to be more than $500 million. To fund such expenditures, Congress must choose either to cut back the funding to administer properly direct lending, and thus jeopardize the flow of funds to students and parents, or to appropriate monies for these administrative costs at the expense of other domestic assistance programs. Despite the apparent attractiveness of direct loans on a subsidy basis, the costs now borne by lenders will ultimately have to be absorbed within a system which lacks the competitive incentives lenders now receive from the marketplace. In spite of the assurances from direct loan advocates, there is very little evidence that direct loan administrators can match the existing service levels at a lower cost.

This committee must also weigh the merits and potential consequences of increasing federal borrowing in order to replace capital generated by the private sector. Direct loan advocates are proposing that the federal government raise over $10 billion per year in additional Treasury borrowing, thus increasing the public debt and, potentially, adding to the cost of borrowing. Again, these types of ramifications of the shift from guaranteed to direct lending are not adequately captured in existing cost estimates.

## Conclusion: Direct Lending Is Too Risky A Gamble For Students And Parents

It is our view that the risks of direct lending far outweigh any potential benefits. The announced cost savings which have such allure are, in fact, elusive. We doubt that service to students under a direct loan program will improve, it is more likely to decline; the flow of funds under direct lending will be unreliable and access to loans will be a problem. We question the claims made by direct lending proponents that federal funds can be freed up for use in other student aid programs. Instead, we believe it more likely that the federal expenditures associated with direct lending will further squeeze the federal resources available for all domestic discretionary programs.

Students and parents are too reliant on the flow of student loan dollars to justify gambling that an untested proposal will be a suitable replacement for a program that has provided $115 billion to 21 million borrowers over the past quarter century. We strongly urge this committee to abandon the notion of a cumbersome federal direct loan program and to continue efforts to improve the existing guaranteed student loan program.

USSA "Organizing and Advocating for Students Across the Country"

United States Student Association / 815 15th St., NW Suite 838 / Washington D.C. 20005 / (202) 347-USSA
FAX# (202) 393-5886

October 28, 1991

Members,
Senate Labor and Human Resources Committee

Dear Senator,

We are writing on behalf of the 3.5 million postsecondary students represented by the United States Student Association (USSA) regarding **S. 1845, the "Financial Aid for All Students Act of 1991,"** that was introduced by Senator Paul Simon and Senator David Durenberger. Because of fortuitous timing, USSA's Board of Directors - consisting of 67 students from all over the country - met in Washington, D.C. over the weekend (October 25-26, 1991) and discussed S. 1845. We brought this bill to the attention of our Board since certain elements of S. 1845 were ones that had not been previously reviewed by our organization.

While the USSA Board of Directors appreciates the intent of Senators Simon and Durenberger, USSA is concerned about many of the bill's provisions, including those regarding **Income-Dependent Education Assistance,** and ask you to not incorporate those elements into the S. 1150, the "Higher Education Act Amendments of 1991." USSA, however, wishes to emphasize **our strong support for your Committee's consideration of the direct lending of student loans by institutions.** While we have many concerns regarding how a direct lending system would be phased-in and executed, we are very supportive of the concept because of the enormous savings and enhanced simplicity of such a system. This letter will detail these concerns.

Basically, USSA recognizes that the Stafford Loan program has enabled countless students to pursue a postsecondary education. However, our recommendations for the Stafford Loan program and repayment options are accompanied by our strong belief that a Pell Grant entitlement is a necessary prerequisite to making our loan programs work in the interests of current and potential postsecondary students, as well as our Nation.

## COMMENTS BY USSA REGARDING S. 1845

### Title I - Pell Grant Entitlement, Graduate Assistance, and Excellence Scholarships

USSA strongly believes that Pell Grants should be an entitlement; in fact, it is the number one priority of our organization during this reauthorization process. USSA is also strongly supportive of extending grant eligibility to needy first-year graduate students. Hence, we salute Senators Simon and Durenberger for their attempt to add more certainty and funding to the Pell Grant program, and to extend Pell Grant eligibility to first-year graduate students. S. 1845, however, does NOT mandate a true Pell Grant entitlement; instead, a student eligible for the maximum Pell Grant would receive the maximum grant funded through the appropriations process plus an additional $600 (and so on). In addition, we believe that the appropriations committees - in a time of fiscal constraints - would reduce what they would have funded for the Pell Grant maximum by $600 in recognition that an additional $600 would automatically be added on to the maximum under S. 1845. Hence, USSA believes that this provision does not make Pell Grants into a true entitlement, and would even fail to ensure that the neediest students receive an additional $600 Pell Grant award.

In addition, while USSA supports the concept of the $1000 Excellence Scholarships, we are concerned about the use of standardized test scores, class rankings, high school coursework, and early intervention program participation to determine students' eligibility. While we laud efforts to improve students' academic performance, preparation, and participation in important early intervention programs, we believe that financial need should be the ultimate determination of student aid awards. Students who score high on standardized tests, have high class rankings, take college preparatory courses, and complete early intervention programs are more likely to receive merit-based scholarships and to be motivated to overcome the financial barriers to a higher education. Financial need should be the ultimate determination of student aid awards, not these very difficult-to-meet criteria. Also, H.R. 1150 already includes authorization of $1000 ACCESS scholarships that are similar to the intent of these Excellence Scholarships.

## Title II - Income-Dependent Education Assistance

We wish to emphasize that our opposition to S. 1845 is primarily based on the IDEA portion of the bill. USSA does support the idea of income-sensitive methods of loan repayment, but feels that S. 1845's construction of income-dependent loan assistance is objectionable. Basically, USSA's Board of Directors objects to S. 1845 for the following reasons:

**(1) S. 1845 would exacerbate the loan/grant imbalance, particularly among dependent students.** S. 1845 would replace the Stafford and Supplemental Loans for Students (SLS) with IDEA credit. Currently, independent students (and in exceptional circumstances, some dependent students) are eligible for SLS. For students not eligible for SLS, S. 1845 increases the maximum loan limits under IDEA by $3,975 to $4,000, but only increases the maximum Pell Grant by a $600 entitlement. S. 1845 would thus increase these students' dependence on loans.

However, independent (and other) students currently eligible for Stafford and SLS loans would see a dramatic decline in the loan amounts they can borrow (between $500 and $1,300) - which USSA finds objectionable in light on skyrocketing college costs.

**Annual Loan Limits**

| | Current | | S. 1845 | Difference |
|---|---|---|---|---|
| | Stafford | SLS | IDEA Credit | |
| **Undergraduate** | | | | |
| 1st & 2nd Year Dependent Students* | $2,625 | | $6,500 | $3,975 |
| " Independent Students | $2,625 | $4,000 | $6,500 | - $500 |
| Other Dependent Undergraduates* | $4,000 | | $8,000 | $4,000 |
| " Independent Undergraduates | $4,000 | $4,000 | $8,000 | 0 |
| **Graduate/Professional**** | $7,500 | $4,000 | $11,000 | - $500 |

* The PLUS loan program for parents of dependent students would continue under S. 1845.

** Under S. 1845, medical and other high-cost doctoral degree students would be eligible for up to $20,000 of IDEA credit. Students in extraordinarily high-cost graduate degree programs would be eligible for up to $30,000.

**(2) S. 1845 would eliminate the in-school interest subsidy on student loans and therefore would significantly increase students' loan burdens.** The bill would also eliminate loan origination fees and insurance premiums. USSA is not convinced that these two factors "cancel each other out." In fact, Senators Simon and Durenberger's own statistical analysis indicate that many students would see an increase in their total student loan indebtedness after graduation. This increase would be **even** larger if the Senators compared the IDEA proposal to the current system (with the 8% Stafford Loan interest rate) rather than with S. 1150 and its increased interest rate.

Elimination of the in-school interest subsidy would particularly hurt middle-income students who have increasingly financed their education with loans as they have been shut out the Pell Grant program. They directly benefit from the in-school interest subsidy, and stand to lose a great deal from its removal.

We only have to look at the current SLS program to see the adverse affects of a loan program lacking an in-school interest subsidy. Looking at an actual Repayment Addendum and Disclosure Statement from a lender to a SLS borrower, a student from Louisiana, shows that after she makes repayments on her SLS loan of $4,000 over the next nine years, she will have had to repay $8,362. She will have to pay $8,362 for a $4,000 loan. It's crazy that poor people are expected to pay twice as much for their education! Now, S. 1845 attempts to address the problem under the current Income Contingent Loan program of students forever paying off their loans because of negative amortization - that is, students whose low-paying jobs result in their paying off the interest but never touching the principal, and remaining indebted for life - by forgiving their IDEA loan after 25 years of repayment. Well, 25 years is a long time to keep penalizing students, and is hardly an incentive to take out an ever-growing loan.

**(3) S. 1845 does not sufficiently address the underlying reason why students default on their student loans.** The bill assumes that all of these students won't pay back their loans rather than recognizing that most of them simply can't pay them back. While USSA shares Senators Simon and Durenberger's concern about the increasing costs of Stafford Loan defaults, **we believe that better loan collections through the Internal Revenue Service is not the answer. What is desperately needed is an increased commitment to retention programs and grant programs, including a Pell Grant entitlement.**

There are many reasons why students default, including ones for which it is unfair to assign blame to the student. Half of Stafford Loan defaulters are dropouts from postsecondary programs. These people are not likely to have the job prospects or enhanced earning power that accompany a postsecondary degree or certificate, and thus face difficulty repaying their loans. **Many student loan defaulters WANT to pay back their loans; they just CANNOT.** ***We ask: what does S. 1845 do to help disadvantaged students stay in school and thus be able to graduate and repay their student loans? Does S. 1845 really increase the amount of grant assistance to needy college students? Does S. 1845 improve postsecondary student support services to ensure that disadvantaged students persist in higher education?***

We would also like to point out that even though total student volume has quadrupled in the last decade, a consistent 90 percent of students DO repay their loans. USSA is NOT suggesting that the 10 percent of loans that go into default are not significant or reason for us to carefully consider ways to improve the percentage of students who repay their loans. Hence we are very supportive of S. 1150's efforts to decrease the number of defaults and to reduce fraud and abuse in the student loan system. We hear from too many students who fall through the cracks and end up defaulting on their loans, or who have been ripped off by fraudulent schools. In addition, however, we must strengthen our investment in the retention programs - including the TRIO Programs for Students from Disadvantaged Backgrounds - that enable students to stay in school. We must make Pell Grants an entitlement ... which would decrease the amount of low-income students forced to take on huge loans to pay for their postsecondary education and increase their persistence rates. We must also ensure that students have all the knowledge necessary to make good decisions and to be responsible and informed student loan borrowers - and S. 1150 would definitely help in this area. Without these changes, better loan collection techniques through the IRS will not help improve the number of students paying back their loans.

**(4) S. 1845 is likely to complicate, not simplify, the student loan repayment process.** While USSA strongly supports the idea of income-sensitive loan repayments as a more fair and manageable way for students to repay their loans, we have concerns about S. 1845's particular way to collecting income-dependent loan repayments.

- Where are students supposed to turn to for counseling and information on their student loan repayment options and problems? The IRS? The current system is far from perfect, but at least students can work with their lender on deferment and forbearance options. Will the IRS provide counseling? What if a student is drawing a salary and having increased employer withholding for their student loan repayment, but has genuine hardships?

- How can students predict what their monthly loan payments will be? After graduation, a student's earnings are probably the most unpredictable aspect of his/her life! Won't employers have increased administrative expenses as participants in loan collections? Will they and the IRS get administrative cost allowances?

- How about self-employed loan borrowers? When and how would they repay their loans?

- Isn't IDEA a disincentive to working? If you never work and file taxes, you will never have to repay your loans? How do we track genuine defaults?

## Direct Lending

At USSA's 44th Annual National Student Congress held in August 1991, students from all over the country voted to support the concept of the direct lending of student loans by institutions. We support the development of this idea for the following reasons:

- Simplification of the loan application, delivery, updating, and repayment processes ... and reduction of loan defaults. The current GSL structure of more than 13,000 lenders, over 50 guarantee agencies, and many secondary markets results in an overwhelming system of multiple application forms, fees, paperwork and massive confusion for too many students. By contrast, the Perkins Loan program is far easier for students to understand and use. USSA believes that many defaults are the result of the complexity and confusion of this system that leaves too many students with too little information and no sense of who to go to for answers.

- Increased efficiency. Because of the complicated nature of the system, students experience numerous delays in getting their loans, causing much hardship: students are penalized for paying their tuition bills late or are dropped from their classes, and have difficulty paying their child care costs or putting food on the table. Under a direct loan program - like the Perkins Loan program - a school could process and deliver a loan along with a student's regular financial aid application. In addition to reducing paperwork, the school would have direct control over the timing and distribution of loan funds. Hence, students would receive their loans more promptly.

- The possible elimination of origination fees and insurance premiums.

- The possibility of substantial savings (a reduced need to pay the special allowance rate) that could be channeled into increased grant aid. Estimates of savings range from $600 million to $1.4 billion.

- Automatic loan consolidation.

- Reduction in defaults/better counseling. If schools originate the loans along with the regular financial aid application, students would get more and immediate information on how and when to repay their loans, and deferment and consolidation options. In addition, a Harvard study found that a direct loan program would reduce or simplify 44% of its administrative functions associated with the current Stafford Loan program. A decrease in the administrative complexity for institutions would mean that schools could devote more of their energies on reducing defaults through better counseling of student loan borrowers.

However, as this committee looks into Senators Simon and Durenberger's direct lending proposal in S. 1845, USSA asks that you carefully consider the following questions:

- Will there be adequate capital so that the loan program will remain an entitlement under which every student who is eligible for the program can get a loan?

- Will there be a phase-in period so that there is opportunity to assess and address problems in the system?

- How do we prevent institutions from "red-lining" students they consider risky borrowers? Since institutions are being held responsible for high default rates (i.e. high default schools are being cut off from participation in student loan programs), will they deny loans to students whom they think are likely to drop out and default? Will this end up denying *first-generation college students, and students from low-income and ethnic minority backgrounds* access to loans and a postsecondary education?

- If financial aid offices at direct lending institutions take on new overhead costs and thus require additional funding, will there be new costs passed on to students? Would direct lending really eliminate the need for origination fees and insurance premiums? If there are savings from restructuring the loan program, will they go to student aid programs? Or will all savings be lost to new administrative costs for the Department of Education and institutions?

- Will nontraditional students - older students, part-time students, and evening students - receive adequate services regarding loans if financial offices are only open during the day?

USSA looks forward to further discussing these issues as you consider direct lending proposals, and stands ready to be of assistance. **We think that the direct lending could be a powerful way to ensure that student loans work in students' interests.**

Lastly, USSA urges you to consider following the lead of S. 1845 and work to eliminate **student loan origination fees and insurance premiums**. We are concerned that S. 1150 preserves the current origination fees and insurance premiums, and imposes new ones on SLS loans. Students apply for financial aid because they do not have a lot of money. How can we then expect them to pay application fees, origination fees and insurance premiums? Right now, students are often charged an application fee when they apply for financial aid. And since 1981, the Higher Education Act has authorized lenders to collect from Stafford Loan borrowers an **origination fee** equal to 5% of the loan's principal to be paid to the federal government in order to offset the costs of federal in-school subsidies and special allowance payments to lenders. In addition, Stafford Loan borrowers may be charged up to 3% of the loan principal as an **insurance premium** to defray guaranty agency default costs. In other words, under the current system, a student who is supposedly receiving a $2500 Stafford Loan is really receiving $2300, but must repay the loan as if he/she had received the full $2500. There is currently no origination fee attached to the Supplemental Loans for Students or the PLUS programs, but SLS borrowers have to pay an insurance premium up to 3% of the loan principal.

In conclusion, USSA strongly supports the intent of S. 1845, especially in regards to the Pell Grant entitlement, direct lending, and the elimination of origination fees and insurance premiums. We would encourage the Committee to consider income-sensitive methods of loan repayment in which students' needs are the priority. In addition, we hope you will consider our critique of S. 1150 which was sent to Senator Claiborne Pell on October 22nd when the Committee marks-up S. 1150 on October 30th (a copy of our critiques are enclosed).

Sincerely,

| | |
|---|---|
| Tajel Shah<br>President | Selena Dong<br>Legislative Director |

Senator **Pell**. We now come to our first witness, David Kearns, who has a wonderful background in business and education.

Mr. Kearns.

## STATEMENT OF DAVID T. KEARNS, DEPUTY SECRETARY, U.S. DEPARTMENT OF EDUCATION, WASHINGTON, DC

Mr. **Kearns**. Mr. Chairman, thank you very much.

I must admit I am a little challenged. The Senator called you a "general" and the Senator himself a "private". I'm not sure what that makes me, but in any event, I am pleased to be here and respond.

For the record, I will summarize from my testimony that was submitted earlier for the record.

Senator **Pell**. Your testimony will appear in full in the record.

Mr. **Kearns**. Thank you, Senator.

We too are very interested in the same directions that Senator Simon and you, Mr. Chairman, indicated of making education more accessible and are pleased with much of what is in the Higher Education Authorization Act directionally and are in agreement with most of it.

My boss, Lamar Alexander, would have been here today, but I am substituting for him; he is with the Governors in Kansas and Missouri today, talking about State education issues and solutions.

There isn't any question that the current system of student loans must be fixed, and it has got to be brought under complete control. I believe it needs to be brought under control before an entirely new system is considered.

We know the problems with the current delivery system, and these problems in my mind can be fixed. We have administrative improvements that are underway in the loan programs, and the Senate has incorporated many important program integrity measures that have been proposed by the administration, and this issue of integrity is very important.

The administration supports many of the principles and goals in S. 1845 such as the targeting of aid on those who need it the most and rewarding excellence.

Where we differ—and we do differ strongly, Mr. Chairman—however, is in the implementation of these principles. We do not support the creation of new entitlement programs, and we are convinced that replacing the Guaranteed Student Loan programs with a direct loan structure is far too risky and uncertain to pursue at this time.

There are good reasons to doubt that the loan program proposed would in fact save $2.7 billion annually. The primary reasons for concern here are first that payments by low-income borrowers would not cover the government's cost of borrowing so that the true cost of this program would depend on the mix of borrowers, a factor that is very difficult to predict.

Second, the bill is not clear on what fees would be provided to schools in exchange for originating loans.

Third, while using the IRS as a collection agent does have appeal, it may prove very complicated and would not in any case, in our opinion, eliminate defaults.

We have other more general objections to the direct loan proposals. One is whether schools could shoulder the new administrative burdens involved, and second, the resultant increase in the Federal debt and annual borrowing under the provisions of this bill could under the increased programs be up to $20 billion a year, or $100 billion over the next 5 years. I believe that the perception of increasing Federal debt substantially at this time is not the right thing to do.

In summary, we know that there are problems with the current Guaranteed Student Loan system. However, the solutions that have been proposed to remedy these problems and the massive change in the delivery of loans at this time we believe is not required.

Instead of potentially disruptive attempts to replace the GSL program, the current system must be revamped to provide incentives for efficient operations. Steps to accomplish this would include giving the Secretary significantly greater authority to address weak guarantee agencies; examining the level of compensation provided to lenders from special allowance payments, and encouraging the States to play a much more active role in the institutional eligibility process.

The administration has already indicated in a report to the House of Representatives on their bill that President Bush's senior advisors will recommend that he veto any bill to reauthorize the higher education authorization bill that includes either new entitlements or a direct loan program.

I urge you to carefully consider these issues as you work through the reauthorization process.

Thank you very much, Mr. Chairman, Senator Simon. I'd be pleased to answer any questions that you might have.

[The prepared statement of Mr. Kearns follows:]

## Testimony By

**David Kearns**
**Deputy Secretary for Education**

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to come before you today and offer the Administration's views on S. 1845, the Financial Aid for All Students Act of 1991. This proposal raises several issues that are critical to the reauthorization of the Higher Education Act of 1965 (HEA), and I assure you that Secretary Alexander would be here to testify today were it not for a longstanding out-of-town commitment.

Let me begin by saying that, as Senator Durenberger has pointed out, the Administration supports many of the principles and goals underlying S. 1845. The Administration strongly supports the targeting of Federal education resources, including student financial aid, on those who need them the most, and we see the rewarding of excellence as one of the cornerstones of education reform. As you know, our proposals for reauthorizing the HEA include a substantial increase in the maximum Pell Grant, higher loan limits, use of income to determine graduated repayment schedules, Presidential scholarships rewarding high academic achievement, and the expansion of early intervention activities.

Where we differ strongly with S. 1845, however, is in the implementation of these principles and the means to be used to achieve these goals. We do not support the creation of new entitlement programs, and we are convinced that replacing the Guaranteed Student Loan programs with a direct loan structure -- an idea evidently now seen as a panacea by some in Congress -- is a far too risky and uncertain proposal to adopt at this time.

The Administration has already indicated, in a bill report to the House of Representatives on H.R. 3553, that President Bush's senior advisers will recommend that he veto any bill to reauthorize the Higher Education Act that includes either new entitlements or a direct loan program.

The Administration opposes the creation of the entitlements in S. 1845 -- the Pell Grant, Excellence Scholarship, and Early Intervention programs -- for the following reasons:

- First, entitlements are the fastest growing area of Federal spending, and thus the biggest cause of deficit growth.

- Second, entitlement programs deter both the Congress and the Administration from responding to changing needs. We simply should not restrict the Federal Government's flexibility even further through new entitlement programs.

- Third, it is not correct to describe the new entitlement programs created by S. 1845 as "shifted entitlements," implying that they have no cost, when they are to be funded by "savings" that are not supported by reasoned analysis. It is questionable whether any of the changes are funded -- as required by the Budget Enforcement Act of 1990 -- under pay-as-you-go rules.

This last point takes us to the heart of S. 1845: the Income-Dependent Education Assistance (IDEA) Credit program. S. 1845 is premised on the belief that this direct loan proposal would save $2.7 billion annually, which would then be available to fund the Pell Grant, Excellence Scholarship, and Early Intervention

Program entitlements. There are good reasons to doubt the savings that have been claimed for this and other direct loan proposals. We should not create large and complex new programs based on as yet unknown and unlikely to be realized savings. It is important to note that the Chairman of the House Committee on the Budget objects to the House HEA reauthorization bill because of similar concerns.

As I have noted, the bill assumes that the IDEA program will save $2.7 billion compared to the cost of the Guaranteed Student Loan programs. No details have been provided to support this estimate. Several aspects of the IDEA program make it very difficult to predict its true cost:

First, because payments by low-income borrowers would not cover the Government's cost of borrowing, the true subsidy level of this program would depend on sufficient participation by middle-income and high-income borrowers. With any income-contingent loan program there is a danger of adverse selection: students planning low-income careers will choose the program in such a proportion as to require a higher Government subsidy. In other words, the mix of borrowers will determine the cost of this program: the more low-income borrowers, the higher the cost of the program.

Other factors also may increase the costs of the IDEA program. For example, the future incomes of college graduates may not be as high as the savings estimate assumes. Also, the savings estimate could not include fees, because the bill does not indicate what fees, if any, schools would be given to originate loans, or what additional administrative requirements would govern the provision of loan capital to the schools.

In addition, while using the IRS as a collection agent may seem an attractive solution to current difficulties in collecting student loans, the reality of this bill would be much more complicated. We question the claim that IRS collection as outlined in S. 1845 would virtually eliminate the problem of defaults. This claim seems exaggerated for two reasons: (1) large numbers of Americans are not required to file income tax returns; and (2) the complete loan forgiveness that is provided for any outstanding balance remaining after 25 years is really a default that must be paid by the Government.

It is also unclear whether the savings estimate for S. 1845 includes the very significant administrative costs that would be incurred by the Internal Revenue Service and the Department of Education. The idea of involving the IRS in collecting student loans has appeal, but the success of such involvement would depend upon how the details are implemented. And careful analysis of these details would be required. The Department of Education will be working with the Department of Treasury and the Committee to explore this notion, because it may have merit without regard to the direct loan context.

In addition to questions about the specific provisions of the IDEA proposal in S. 1845, the Administration has other more general, but no less important, concerns about any large-scale direct loan program.

- First, many schools would shoulder new administrative burdens, placing too much responsibility for the control over Federal funds with schools that have little or no experience in originating loans. At a time when the soundness of student financial aid management at many postsecondary institutions is being questioned, it would not be prudent to expand our reliance on these institutions. And, because responsibility for collections would shift to the IRS, existing procedures and systems of all kinds would have to be changed.

- Second, borrowing by the Treasury to finance any direct loan program would increase the national debt, for which the Government must pay interest. With the significant expansion of loan eligibility and loan limits included in the bill, annual borrowing could approach $20 billion. That's a $100 billion increase in the Federal debt in the just the first five years of implementation. This impact of a direct loan program would be immediate, while loan collections would not be significant for many years.

- Finally, we should not recreate the wheel and create a new delivery mechanism. We already utilize 10,000 banks that are the most effective loan contractors in their respective communities. We should be identifying incentives for efficiency that will drive these existing contractors to run the existing programs at lower cost to the Federal Government.

The problems of the GSL program are well known. The ways to fix it are also clear. They are included in the Administration's bill and many of them have been adopted in the Subcommittee's program integrity provisions. We can fix the GSL program without incurring the risks, costs and problems of a direct loan program.

Thank you, and I will be happy to take any questions you may have.

Senator Pell. Thank you very much.

Is it your own thought that the department could administer a program similar to the one proposed by Senator Simon and Senator Durenberger?

Mr. Kearns. I think the department could administer it, or we could probably find agencies or people to do that. But while the banks out there today are having a lot of difficulty, we have loan origination functions in each city across the Nation, and it seems to us that the key thing we need to work on at this time is the integrity of the system.

I believe that the biggest issue that is involved here is in fact defaults, and I am not convinced that going to direct loans solves the default issue.

As I did say in my testimony, we do find the IRS collection process an appealing thing to look at. It could be very complicated and very costly, so I think it is important for us to work with you, which we would be very pleased to do, to work with the IRS, with the Senate committee, to see if there aren't ways that we could work through an IRS collection system.

But until we put teeth into the integrity of this system, which I am most concerned about, that is, that we have teeth that the schools, particularly the proprietary schools, are providing a good education so that students who go through those schools can get good jobs and then repay the loans, then I don't think the default problem will go away.

Senator Pell. I think, too, with the involvement of the Internal Revenue Service, we'd have to work with the Finance Committee, and the House would have to work with the Ways and Means Committee. How long do you think it would take to get a program of this sort up and running?

Mr. Kearns. Well, I don't know the answer to that, Mr. Chairman, but I think it would take substantial time to do, and we would have to run two systems at the same time. As we put a new system into place, we have all the old loan businesses to run out. You'd have to have a management team to run the old process and have incentives in that system at the same time you build up the new system. It would take a substantial amount of time in my opinion to put a new system into place, and I believe it is imperative that we fix the system that we have currently and build integrity into the system.

Senator Pell. What would be the cost?

Senator Durenberger. I wonder, Mr. Chairman, if Mr. Kearns couldn't pull the mike a little closer.

Mr. Kearns. I'm sorry, Senator Durenberger.

Senator Durenberger. Thank you.

Mr. Kearns. We don't know what the cost of a completely new system would be, but it would be very substantial, and I think deciding who would run the new system, what is the most efficient way to do that, and are there elements of the current system that we have that could be changed that would assist you in doing that would determine the costs. But they would be substantial. I can't speak for the IRS, but we have had meetings with the IRS, and depending on what the collection method would be, it would have a significant impact on the costs; but they would be large.

Senator **Pell**. Thank you very much.

Senator Simon.

Senator **Simon**. I think Senator Durenberger is next.

Senator **Pell**. We welcome Senator Durenberger.

Senator **Durenberger**. Thank you, Mr. Chairman.

Let me just say this. I am not an expert on higher education, Mr. Chairman, and I have all my life respected the contribution that you have made in this area. Without you, an awful lot of Americans would not have benefited from higher education; and I would say without you, there are an awful lot of higher education institutions that might not be in existence.

I am a Johnny-come-lately to the financing side of higher education. I come out of the health field, where I think the problems are very similar. I would say that the weakness in the proposal that I am collaborating on with my colleague from Illinois is that we may make higher education too available to too many Americans. That is probably its one weak link. On the health care side, I am part of the incremental reformists who believe that unless you fix the costs in the system of health care, you will never guarantee universal access to everybody. I think the same thing is true in higher education—unless we do something about the costs of higher education. Until we are able to determine what quality is in higher education, we are not going to be able to guarantee universal access.

However, having said that, the people of this country are suffering from the growing disparity between the haves and the have-nots in education, and that is both the haves and the have-nots on the college side and on the student side.

I didn't invent the proposal we are reviewing today any more than my colleague from Illinois did; there are people who have preceded us. I think Congressman Tom Petri (R) from Wisconsin probably deserves more credit than anybody else, although there are people in this audience, some of whom will be testifying today, who will indicate that this is not a new idea. It just happened to have landed here about 4 days prior to a markup, at least by way of introduction, but it is not a new idea.

Mr. Secretary, let me just say I think if the issue in America today is access for middle and low-income Americans to public services that you are missing the boat if you don't do a better job than you have done so far in analyzing the merits of this kind of a program.

I hope it is not the simplicity of the program, I hope it is not the history of the so-called direct loan program—which this is not—although there are similarities. This is not the old income-based loan program nor is it the direct loan program you saw on the House side. And I can only plead with you as we go through the process of re-examining the Nation's commitment to its citizens of access to higher education on some kind of an equitable universal basis, that the administration will take a careful look at its current objections.

There are entitlement aspects, but I think we have been very careful to try to avoid some of the entitlement aspects that the administration has objected to. I am not sure where the notion of riskiness comes into all of this. I know there is a question as to whether or not it saves $2.7 billion, but there is no question about the fact that it would end up saving money.

And I think going through the list of the objections which have been made by the administration, there are some with merit, and there are some that deserve further hearing, and I can only say that I hope this is the first in a series of hearings that we will have on this subject. I think this is neither a Republican nor a Democratic proposal. You've got two people whose approaches to this subject are radically different. I am sure my colleague from Illinois, given the opportunity to plan some national health insurance program or some universal access program, would deliver it tomorrow, as many of his colleagues would. I am more of an incrementalist as we approach this, more of a "let's fix the system first" person.

But I think we have come together here because others have found the middle ground before we ever came to it. We are just sort of lifting up their ideas and asking this committee, the Senate, and certainly asking the administration to look at it more carefully.

[The prepared statement of Senator Durenberger follows:]

### Prepared Statement of Senator Durenberger

Mr. Chairman, I want to commend you for holding this hearing on such short notice in order to review recent proposals to reform the guaranteed student loan program. I also want to commend you for your previous work in this area. In fact, it was your leadership that was one of the first to bring attention to the idea of income-based loan repayment back in 1978 during the Carter Administration.

As I am sure you know by your experience in this area, it is very complicated and I think it is vitally important that we not just rush forward to get a reauthorization bill out for the sake of getting it done and that we take the time here in this committee to fully analyze all the possible options about what is the best way to fund higher education in this country.

Much of our discussion here today will be about the financial squeeze on lower and middle income Americans caused by the rising cost of education and the failure of our current financing system to keep up with those rising costs. That squeeze is real, Mr. Chairman, many middle-class families are being squeezed out of being able to afford higher education of any kind.

The other part of our discussion, Mr. Chairman, is the growing disparity between the workforce demand and workforce capacity. I would contend, Mr. Chairman, that this bill is the biggest long-term unemployment bill we will consider this Congress.

We are at a crossroad in higher education in this country. As members of this committee, we must ask ourselves, is the current system meeting existing needs and will it be able to carry us into the 21st Century?

If this were health care, I would say lets take this in incremental steps. But in the world of education, we cannot wait five years. The current system is not working, we need fundamental reform.

Mr. Chairman, let me walk through a few examples starting with a few letters from constituents in Minnesota. These letters show the reality of the current system, that it is broke.

I ask unanimous consent, Mr. Chairman, that these letters and others be printed in the record in full. (Letters referred to follow at the end of this statement.)

Two analogies will help make this point. The first deals with how we pay for our homes.

In my fathers generation, Mr. Chairman, a young couple would save enough money to make a sizable down payment on their first home—a big enough payment so that the balance borrowed could be paid off in a relatively short period of time. But with rising average cost of housing—after World War II—we found we couldn't afford to do that anymore. So we invented the $500 down, 30 years-to-pay home mortgage, and we made interest on that mortgage deductible.

In short, the way we paid for housing didn't work anymore, so we invented a new way of buying homes—the $500 down, 30 year, tax deductible home mortgage.

We responded with similar creativity to the financial dilemma in the rising cost of health care. When I was growing up in rural Stearns County, MN, my parents paid cash for health care. When they couldn't afford to pay cash, a lot of our neighbors paid our family doctor with pickles and produce.

At some point, however, the rising cost of health care couldn't be sustained by cash, or pickles. So we invented health insurance. And again, government stepped in by making health insurance benefits tax free to both workers and their employers.

Mr. Chairman, neither you or I will stand here today and defend that system. But the reality is that faced with the rising cost of health care and housing, we found a way to provide increased access.

What Senator Simon and I are proposing is to higher education what home mortgage and health insurance were to the financing of housing and health care—a fundamental way of reducing burdens of rising costs and of insuring each of us against uncertainties of incomes that rise and fall throughout a lifetime.

Mr. Chairman, my interest in the Simon-Durenberger approach to financing higher education stems from very real fears about the future. Fears I had when I had to finance my own sons educations and fears I hear everyday from middle-income parents concerned about how they are going to send their kids to college.

Let me give you an example drawn from a 41-year-old Minnesotan who grew up in a middle-income family and who would be considered middle-income today. Twenty years ago, this individual attended the second most expensive college in Minnesota. By drawing on a small savings account, part-time jobs and small scholarship in the first two years, and his parents income, this individual's college education was paid for without borrowing.

The total cost of that 4-year private college just one generation ago was about $12,000. Today, that same individual has three children, ages 12, 9 and 3. And, anyone who can do simple math can figure out something has to change if those three kids are going to get a college education.

Projecting costs into the future, the total cost of educating those three children will range between $200,000 and $400,000—depending on the type of school. That is an average of $67,000 for public education and $113,000 for private college—a 10-fold increase in just one generation.

A prudent parent would start saving for that expense right now. Using reasonable assumptions, our 40-year-old couple would have to start saving $14,000 a year to cover costs at public schools and $30,000 a year to cover tuition at private schools.

To quote Dick Darman on health care, Mr. Chairman, these numbers are "not sustainable."

Fundamental change is needed. We simply cannot afford to continue with a system that spends almost a third of its total spending on default costs—wasted money.

Many people have thought about ways in which to change the existing system to better meet the needs of students. The idea of income-based loans as a fairer, more equitable means of providing financial aid has been around for over a decade. Mr. Chairman, you were one of the first in a lien of distinguished individuals to consider such a concept. Since then many have studied the idea, including Robert Reischauer, Dennis Doyle and Barry Bluestone. The problem associated with all of these proposals has always been that there was never a politically acceptable means of providing the upfront funding needed to start such a program, and second that many of these programs had serious adverse selection problems that would make the program unattractive to many individuals we are trying to reach.

The problem of financing no longer exists due to the changes made under the Budget Enforcement Act to measure loans based on their net present value rather than on a cash accounting basis. And the adverse selection problem is addressed under a new formula first derived by Rep. Tom Petri that varies the repayment period, tax rate and effective interest rate.

The proposal Senator Simon and I have introduced uses the Petri concept to restructure the financial aid system to better target funds to students—not third party players—and bases repayment on future income. We use the savings from this proposal, which is estimated to be between $2.0–$2.7 billion, to feed back into the Pell Grant system and to a new excellence scholarship program and early intervention program.

It is important to remind people that this is not the direct loan program currently being considered in the House of Representatives. It does not have the same administrative problems of that program for many small schools and for the Department of Education. Yet at the same time, it does have some of the advantages, the greatest of which are increased efficiency and access.

Under our proposal, the young scholar who was unable to qualify for financial aid to help her attend the College of Pharmacy at the University of Minnesota would be eligible for a new $1,000 excellence scholarship. The thousands of Minnesotans and others around the country who were struggling to make payments on their loans because of temporary periods of hardship or unemployment would either have no payment for periods when their income was below the tax filing threshold, or have very low payments based on their ability to pay. In addition, repayment based on withholding income through the tax system, would be simpler for everyone to understand and comply with.

Mr. Chairman, there are obviously many questions that need to be answered anytime we consider a change as large as the one proposed by the Senator from Illinois and I, but I think you will find that this is a solid program that is fairer for all students and their families. So I commend you for holding this hearing and I look forward to hearing from the witnesses.

[Letters referred to follow:]

June 26, 1991

The Honorable David Durenberger
U.S. Senate
Washington, D.C. 20510

Dear Senator Durenburger:

I am writing to you because my daughter seriously needs your help. Things seem to be backwards in this country, when a student with grades like hers can't find financial help to continue her education. She has completed two years at Mankato State University with small scholarship help but now all avenues of help have turned her down due to my husband's and my finances, which are by NO means substantial. What does our $40,000+ total annual income have to do with her being able to even get a Stafford loan (which needs to be paid back WITH interest!

I feel we're dealing with REVERSE discrimination; as any foreigner, minority or the poor can get all the aid they need without regard to their grades. Where are the monies for students who are NOT "need-based?" Our government recognizes that students are not entering Math & Science classes and that we're falling behind in those areas. Why NO incentives for a good student who has been accepted to the College of Pharmacy at the University of Minnesota?

I would appreciate any information as to available low-interest funds for "academic" loans or scholarships that you may know of. I have one very discouraged young AMERICAN woman of 19 on my hands!

Sincerely,

White Bear Lake, MN. 55110

---

Minneapolis, MN 55407
June 4, 1990

Dear Senator Durenburger,

I am writing to ask for your assistance in obtaining financial aid for my college education. I was recently notified that I am ineligible for federal assistance and doubtful for State (Minnesota) aid. The reason for the denial is that my income is too high. My income for 1989 was approximately $10,500.

Let me explain my situation. I am 22 years old, living independently, working full time and, most importantly, I have hemophilia. For all practical purposes I could be on public assistance instead of working, but I choose to push my limits and support myself. My medical bills are currently covered by an HMO for which I privately pay high premiums. I wish to pursue a college education, but cannot do so without assistance.

It doesn't make sense to me that I am penalized for working as hard as I do. I apparently would be better off working part time and seeking public assistance with my medical expenses. I would rather obtain an education so that I can be self-sufficient. Because of my physical condition it is impossible for me to be a full time student and work full time.

Any help or advice that you can give me will be greatly appreciated. I look forward to hearing from you. Thank you very much for your attention.

Sincerely,

MAY 26, 1990

Senator David Durenberger
So. 6th St.
s., MN 55402

Dear Senator Durenberger:

I'm disappointed in some aspects of the Guaranteed Student Loan Program and would like the answers to the following questions:

What are the qualifications for the loans?
Why aren't there allownaces for special situations?
Are there any follow-up checks on how loan money is used?
What incentive is there for young people to go to college?

My daughter, [redacted], left a good full time position to go back to college and work part-time. She chose to go to Normandale Jr. College in Bloomington as it is convenient to her part-time postition and tuition was reasonable. She received no student aid as the aid was figured on her last year's full salary. Now she is making one half of that and still has the same living expenses, but the school said she only qualified for a supplemental loan at 12% interest with both an and interest having to paid immediately upon receiving the loan. We were forced to borrow the money from a loan company with the same conditions so that she could go to school. A computer printout doesn't accurately show what a students needs are!

However, the daughter of a co-worker received two student loans for her masters degree at Northwestern College in Chicago. According to my co-worker, her daughter has used some of the money to improve the condo her parents helped her buy. Plus the parents send her alot of money so she certainly is not an independent. I don't think that this is an isolated case! Why is this happening?

Meanwhile, my daughter cannot get a loan for her education. Maybe it would be better if she didn't work or lied on the application so that she could qualify for a loan!!

I have been reading in the St. Paul Pioneer Press about the millions of dollars in Student Loans that are in default. Does this affect the number of loans being given now? What is the process for retreiving these defaulted loans? My daughter is willing to work two part-time jobs to help with her education but it seems to be a detriment to her getting a loan. The work ethic doesn't seem to apply in this situation.

I will be waiting for your reply!

Sincerely,

[redacted]
[redacted]
Eagan, MN 55121

Senator **Pell**. Thank you very much.

Senator Simon.

Senator **Simon**. Just a comment or two here. First, on new entitlement programs, we are simply including programs that Senator Pell has included in his bill with the exception of this direct loan. But these are unlike other entitlement programs. In Medicare, for example, there is an automatic indexing escalator. That has been the problem with the entitlement programs. We take the Pell program, and we add $600 as an entitlement above the $2,400 figure. But that is just a flat figure; there is no indexing on that. It means 470,000 additional middle-income families would be eligible for the Pell Grants.

In terms of possible losses, by paying Treasury bill rates plus 2 percent, number one, the probability is that we will not lose anything even just on the direct loans. But the second thing you do, as John Silber pointed out when he first proposed this a long time ago, is you increase the earning power of tens of thousands of Americans, probably hundreds of thousands of Americans, and as they increase earning power they pay into the Federal Treasury, so the Federal Treasury makes more money.

Now, in terms of it being complicated, it is a little complicated, and we don't have everything worked out. That is why I think it is important, Mr. Chairman, that if we do not have the higher education bill up on the floor yet this fall—and in my opinion we should not have it up this fall so we can have some time to look at this—and even if we were to pass the amendment that Senator Durenberger and I have here today, if it doesn't take effect until 1994-95, I have enough confidence in David Kearns that you can sure work out whatever little bugs there are between now and 1994.

I think the fundamental question comes back: Are we just going to tinker, or are we really going to expand opportunity for Americans? And I think we have to invest in the future of this country.

I would also suggest to you and to the Secretary and others to hold off a little bit on this language about vetoing any bill. I can't remember if you were aboard when I first introduced my literacy bill, and we got letters from the White House against the bill, saying it was going to be vetoed. I was pleased to be there when the President signed the bill, and I think he felt good about it—I know Barbara Bush felt good about it. I hope we can sit down and ask if we can work this thing out. We haven't written anything in stone. We are willing to give and take on this issue. And we can't satisfy everyone. We've got a lot of bankers here today, and we're not going to please all the bankers with this; there is no question about it. And as much as I'd like to help bankers in this country, if I have a choice of giving $1 billion to the bankers or $1 billion to the students in the Higher Education Act, I think we ought to be giving it to the students.

Anyway, this is our chance to lobby you, Mr. Secretary.

Mr. **Kearns**. Yes, sir.

Senator **Simon**. I appreciate your being here, and if you can, hold back a little on the tough language, and let's see if we can work something out.

Thank you, Mr. Chairman.

Senator **Pell**. Thank you very much. I would add that we have two panels ahead of us, seven witnesses, so we should move along. Mr. Wellstone.

Senator **Wellstone**. Let's move along.

Senator **Pell**. OK. Thank you.

Senator **Simon**. That was the briefest speech I have ever heard from Senator Wellstone. [Laughter.]

Senator **Wellstone**. You are pressing your luck now. [Laughter.]

Senator **Pell**. We thank you, then, Mr. Secretary, for coming up, and we'll be in touch with you frequently, I am sure, in the next few days and weeks.

Mr. **Kearns**. I am sure we will.

Thank you, sir.

Senator **Pell**. We now come to the second panel, which includes Mr. Robert Reischauer, director of the Congressional Budget Office, and Mr. Franklin Frazier, director, Education and Employment Issues, at the General Accounting Office, Washington.

Mr. Reischauer, please proceed.

## STATEMENTS OF ROBERT D. REISCHAUER, DIRECTOR, CONGRESSIONAL BUDGET OFFICE, WASHINGTON, DC, AND FRANKLIN FRAZIER, DIRECTOR, EDUCATION AND EMPLOYMENT ISSUES, GENERAL ACCOUNTING OFFICE, WASHINGTON, DC; ACCOMPANIED BY WAYNE UPSHAR, PROJECT MANAGER, DIRECT STUDENT LOAN PROGRAM, AND JAY EGLUN, ASSISTANT DIRECTOR FOR HIGHER EDUCATION, GAO

Mr. **Reischauer**. Mr. Chairman and members of the committee, I appreciate the opportunity to participate in these hearings.

With your permission, I am going to submit my prepared statement for the record and will confine my remarks to a brief description of how the new credit reform system works and what its implications are both for the current GSL program and for new direct loan variants, such as the IDEA program that we are discussing here today.

The credit reform procedures, which were adopted as part of last year's Reconciliation Act, changed the focus of budgetary accounting for loan programs from the annual cash flows associated with a direct or guaranteed loan to the government's expected long-term costs of providing credit assistance.

Under credit reform, the budget reflects only the estimated subsidy costs which are defined to be the estimated long-term costs to the government of a direct loan or a loan guarantee calculated on a net present value basis.

These costs are included in the budget at the time that the subsidy is incurred, not many years later as was often the case under cash accounting, particularly for loan guarantee programs such as the GSL program.

Under the principles of credit reform, the budget authority required for the GSL programs, starting with the current fiscal year, will be an estimate of the program's subsidy rate times the volume of the new commitments. In the case of the Stafford loan program, the subsidy rate calculation represents the net present value of the government's in-school and deferment period interest payments, the administrative cost allowance paid to guarantee agencies, the special allowance payments made to banks, the guarantee payments made for defaulted loans, the collections from defaulted loans, and the receipts from the origination fees that are charged to the borrowers.

CBO estimates that for every dollar guaranteed through the Stafford loan program, the Federal Government will incur a subsidy cost of 28 cents. The total subsidy cost for the $8.7 billion that we expect to be loaned in fiscal year 1992, then, is about $2.5 billion. For all three of the student loan programs combined, the subsidy rate is about 25 percent, and the total expected costs for 1992 under the credit reform accounting system are expected to be about $2.8 billion.

It is considerably more difficult to estimate the cost of a direct loan program such as the IDEA program under the credit accounting system. The total subsidy cost of the IDEA program will equal the amount the government pays out in IDEA loans in any year less the net present value of repayments of interest and principal made over the subsequent 25 or so years. The repayments, which would be collected by the IRS, would be highly uncertain because they would depend on a borrower's income each year, the size of their family, the tax filing status they choose, and the amount that they borrowed. The subsidy cost for an IDEA loan will obviously vary enormously from borrower to borrower. Borrowers whose postschool incomes never exceed the tax threshold will receive 100 percent subsidy. Borrowers whose postschool incomes are high could entail a negative subsidy. In other words, the present value of the loan repayments will exceed the amount that the government has loaned.

Because we have little information on which students might borrow through the IDEA program, the size of the loans that they will take out and their future incomes, CBO cannot provide a reliable estimate of the subsidy rate or the overall budget costs or savings that might be associated with this new program. Nevertheless it is possible to conclude that the subsidy rates per dollar loaned under the IDEA program would almost surely be below those of the current GSL programs.

The major reasons for this are that the IDEA program would discontinue the government's in-school and deferment period interest payments and the special allowance payments made under the Stafford program would no longer exist.

Subsidy rates under IDEA could prove to be still lower if the tax system turned out to be a more consistent and effective mechanism for collecting loan repayments than the current mechanism that we use. But collecting loan repayments will increase the administrative costs of the IRS, and some fear that it also could lead to increased tax evasion.

Under credit reform, the changes in administrative costs and in tax compliance are not counted in estimating the subsidy costs. But these factors would still have to be considered by you as you evaluated whether this program was a desirable change.

Even though the subsidy per dollar will almost certainly be lower for IDEA loans than for Guaranteed Student Loans, total subsidy costs could prove to be higher if borrowing increased substantially under the new program. Increased loan volumes seem likely under idea for three different reasons: first, because the income eligibility restrictions will be dropped; second, because loan limits will be increased significantly; and third, because some potential borrowers may find the income-dependent repayment system more attractive than the fixed repayments that are required under the current GSL programs.

Of course, similar liberalizations could take place in the Stafford loan program without converting it to a direct loan, or the IDEA program could be instituted without the liberalizations or without the shift to income-contingent repayments.

Let me conclude by reiterating that credit reform has placed guaranteed loan programs and direct loan programs on a level playing field. For the first time, budgetary accounting does not impede making rational comparisons between guaranteed and direct loan programs. Nevertheless the lack of reliable data makes the costs of the IDEA program very uncertain. This uncertainty, I want to point out to you, does not arise from the IDEA program's shift from guaranteed loans to direct loans; rather, it results from the two other changes that are associated with this new program, namely, the liberalization of eligibility and loan limits and the shift to income-contingent repayment mechanisms.

Because of these changes, we cannot reliably estimate whether the total subsidy costs would rise or fall if IDEA were put into place. Even if the total subsidy costs were to fall, the government would face large additional borrowing requirements to take over the loans that are now made by private institutions at a time when the Federal Government is already absorbing an unhealthy portion of the Nation's limited supply of saving. Program changes that involve substantial increases in the level and uncertainty of government borrowing should be scrutinized very carefully, and this point was driven home this afternoon, I think, when the Treasury issued its final statement for the deficit for 1991 which showed that last year we had a deficit of $268 billion, the largest deficit in American history.

On that happy note, I will conclude.

[The prepared statement of Mr. Reischauer follows:]

## PREPARED STATEMENT OF MR. REISCHAUER

Mr. Chairman, I am pleased to have this opportunity to discuss the newbudgetary treatment of federal credit programs and their implications for S. 1845, the Financial Aid for All Students Act. In particular, I will discuss the budgetary treatment of the Income-Dependent Education Assistance (IDEA) program, a direct federal student loan program contained in S. 1845, and compare its budgetary treatment with that of the current guaranteed student loan (GSL) programs.

### HOW CREDIT REFORM WORKS

Credit reform, which was enacted as part of the Omnibus Budget Reconciliation Act of 1990, significantly improves the budgetary accounting, control, and management of federal credit programs. It changes the focus of budgetary accounting from the annual cash flows associated with a direct or guaranteed loan to the government's expected long-term costs of providing credit assistance. It also treats direct loans, guaranteed loans, and noncredit programs on a consistent basis. Before credit reform, when these programs were estimated on a cash basis, the budget tended to exaggerate the costs of direct loan programs and to understate the costs of guarantee programs in their early years—the years that attract the keenest attention of policymakers.

The object of credit reform is to identify the subsidy costs inherent in a direct loan or loan guarantee and separate them from the nonsubsidized cash flows. The law defines subsidy as "the estimated long-term cost to the government of a direct loan or loan guarantee calculated on a net present value basis." Simply stated, the subsidy is the current value of the amount that the government expects to lose on a credit transaction. Under credit reform, the budget reflects only the estimated subsidy costs; these costs are included in the budget at the time that the subsidy is incurred, not many years later as was often the case under cash accounting.

## The Treatment of Guaranteed Student Loans

Beginning with fiscal year 1992, the principles of credit reform are used to develop the budget estimates for the Stafford loans, Supplemental Loans for Students (SLS), and Parent Loans for Undergraduate Students (PLUS). For each program, an estimate is made of the subsidy rate per dollar of borrowing. In the case of the Stafford loan program, the largest of the GSL programs, the subsidy rate calculation reflects receipts from fees charged to the borrower, interest payments made by the government when the student is in school, a one-time administrative cost allowance paid to guarantee agencies, special allowance payments made by the government to banks throughout the life of the loan, and guarantee payments made for loans that go into default.

The Congressional Budget Office (CBO) estimates that for every dollar guaranteed through the Stafford loan program, the federal government will incur a subsidy cost of 28 cents. At that rate, the total subsidy cost of the expected $8.7 billion in loans will be $2.5 billion in 1992 (see Table 1). For the three student loan programs combined, the average subsidy rate is 25 percent. With a loan volume of over $11 billion, subsidy costs are estimated to total $2.8 billion.

TABLE 1. CBO BASELINE ESTIMATES OF LOAN VOLUMES, SUBSIDY RATES, AND TOTAL SUBSIDIES IN FISCAL YEAR 1992

| Program | 1992 Expected Loan Volumes (billions of dollars) | Subsidy Rates (percent) | 1992 Subsidy Costs (billions of dollars) |
|---|---|---|---|
| Stafford | 8.7 | 28 | 2.5 |
| Supplemental Loans for Students | 1.5 | 16 | 0.2 |
| Parent Loans for Undergraduate Students | 1.1 | 8 | 0.1 |
| Total | 11.3 | 25 | 2.8 |

## The Treatment of Direct Student Loans

The Income-Dependent Education Assistance program authorized in S. 1845 would provide direct federal loans to students; loan repayments would be tied to students' incomes after leaving school. The IDEA loan program would replace the current Stafford and SLS guaranteed loan programs. The PLUS program would remain, although its role might shrink.

The Internal Revenue Service (IRS) would collect repayments on IDEA loans as part of the borrowers' income taxes. The annual repayment for any given year would depend on the amount borrowed and on the borrower's income, or on that of the borrower and the borrower's spouse if the borrower filed a joint tax return. In years in which a borrower's income fell below specified amounts, he or she would not owe any IDEA repayments. A borrower's annual repayments would be capped at 20 percent of modified adjusted gross income, less the standard deduction and personal exemptions. Any unpaid balances on loans would be forgiven after 25 years, or if the borrower died or became disabled.

Under the rules of credit reform, the budget records the cost of new direct loans on a subsidy basis. The subsidy cost of IDEA loans will equal the amount the government pays out in IDEA loans in any year, less the net present value of repayments of interest and principal made in subsequent years. Thus, the cost or savings to the federal government of supplying IDEA loans will depend on how many borrowers take out loans, how long they stay in school, and their earnings and marital status after leaving school.

The cost of an IDEA loan to the government will vary enormously from borrower to borrower. For a loan provided to a borrower whose later income never exceeds the tax threshold, the subsidy will be 100 percent. A loan to a borrower whose later income is high, however, can entail a negative subsidy; in such a case, the present value of loan repayments will exceed the amount the government loaned. Generally, IDEA loans made to borrowers with high future incomes will have negative or small positive subsidy rates, and loans made to borrowers with low future incomes will have positive subsidy rates.

At the moment, we have only limited information on which students might borrow through the IDEA program, the size of their loans, and their future income streams. CBO is working with the Department of Education's National Longitudinal Study of the class of 1972 to project the future income streams of student borrowers. We hope to use these data to estimate the subsidy rates and budget costs or savings associated with the IDEA loan program.

## A COMPARISON OF THE IDEA AND GSL PROGRAMS

Nevertheless, it is possible to draw some comparisons between the IDEA program and the current GSL programs. Subsidy rates under the IDEA program are almost sure to be lower than current rates. Under the current Stafford loan program, the government pays all interest while students are either in school or in deferment status. In addition, the government makes special allowance payments to banks throughout the life of the loan. IDEA would eliminate both of these payments. The Stafford program, however, expects all borrowers to repay their loans, whereas the IDEA program would exempt low earners.

Using the IRS to collect loan repayments will also affect subsidy costs. If repayments are more consistently collected through the tax system than under today's procedures, subsidy rates will be reduced. But collecting loan repayments will be a new activity for the IRS, with attendant administrative costs. Moreover, staff at the IRS have indicated that using the tax system to collect loan repayments could increase tax evasion and result in revenue losses. Under credit reform, changes in administrative costs and in tax compliance would not be counted in estimating subsidy costs, but these factors would still have to be considered in evaluating the proposed program. Also, while it seems likely that subsidy rates will be lower under the IDEA program, the amount of borrowing will almost surely be greater. First, many potential borrowers may find the new income-dependent repayments more attractive than the fixed repayment required under the current GSL programs. Second, loan limits will be significantly higher. Freshman and sophomore borrowers will be able to borrow up to $6,500 a year, instead of the current lending limit of $2,625. Borrowing limits for juniors and seniors will increase from $4,000 to $8,000 per year, with similar increases for graduate students. Finally, IDEA loans will be available to all families with eligible students, without regard to family income. Of course, the loan limits and income restrictions in the Stafford loan program could be liberalized without converting it into a direct loan program.

Thus, even though the subsidy per dollar will be lower for IDEA loans than for guaranteed student loans, total subsidy costs could prove to be higher if borrowing increases substantially. Even if total subsidy costs are lower, the government will face large additional borrowing requirements to take over the loans now made by private institutions. Finally, because repayments of IDEA loans depend on future incomes, the costs of IDEA are more uncertain than those of the current programs. Proposals that involve substantial increases in the level and uncertainty of government borrowing must be carefully scrutinized at a time when the federal government is already absorbing a large portion of the nation's limited supply of saving.

## CONCLUSION

Credit reform has placed guaranteed loan programs and direct loan programs on a level playing field. For the first time, budgetary accounting does not impede making rational comparisons between guaranteed students loans, such as the Stafford loan program, and direct loan programs, such as IDEA. The lack of reliable data, however, keeps us from estimating whether total subsidy costs would rise or fall if the IDEA program was put in place, or how much total federal borrowing would rise. In the absence of such information, changes in education loan programs should be made with extreme caution.

Senator PELL. Thank you.

Mr. Frazier.

Mr. **Frazier**. Thank you, Mr. Chairman, members of the committee.

I have with me today Wayne Upshar, who is our project manager for the Direct Student Loan Program, and also Jay Eglun, who is our assistant director for higher education.

We are pleased to be here today to discuss our report that compared the relative Federal costs of the guaranteed and direct student loans. I will focus my comments on the portion of our report that pertains to (1) the potential Federal savings associated with substituting Stafford loans with direct loans and (2) the effect that a direct loan program could have on the administrative functions of the Department of Education and postsecondary educational institutions.

Our analysis suggest that a direct loan program operating in place of the Stafford program in fiscal year 1992 could save over $1 billion in present value terms. Our baseline estimate of the budgetary cost for a 1-year cohort of Stafford loans is $2.7 billion compared to $1.5 billion for direct loans. Depending on the assumptions made, our estimated savings range from $620 million to $1.5 billion. These savings result primarily from the absence of the special allowance payment to lenders.

The bar graph on the right illustrates the cost comparison for a 1-year cohort of Stafford loans compared to direct loans. Under a direct loan program, the administrative focus on the Department of Education would change from indirect to a direct role.

Looking at the charts on your right, as the two charts illustrate, instead of depending on banks and guarantee agencies to service loans, the department would monitor the performance of its services to ensure that loan repayments are collected and credited promptly.

Additionally, a direct loan program would reduce some of the department's administrative burden. For example, the department would no longer be required to monitor lenders or guarantee agencies, nor make interest subsidy payments to lender, nor reconcile special allowance and origination fee accounts with lenders.

Educational institutions will engage in different activities under a direct loan program. At the beginning of each year schools would perform tasks such as forecasting loan volume, drawing down funds from the department as they make loans, and reconciling student loan accounts at designated intervals.

Schools that participate in the Perkins loan program and Pell Grant program currently perform tasks similar to those required to operate a direct loan program.

A direct loan program could simplify schools' administrative functions in areas of loan disbursement, reporting, recordkeeping requirements, and cash management. For example, schools probably would work with one servicer rather than hundreds of lenders and multiple guarantee agencies. In addition, the standardization that could accompany direct lending would eliminate problems associated with the multiplicity of policies, procedures, computer systems, and deferment forms. For example, lenders typically have their own requirements, procedures and forms for students requesting a deferment. Under a direct loan program, the Department of

Education would be the sole lender, and consequently they could make their forms and procedures uniform.

We recognize that there are problems and unforeseen costs that the department and some schools may encounter in administering a direct loan program. These costs would reduce estimated savings. Because of these uncertainties, the House Postsecondary Education Subcommittee requested that we refine the estimated savings that we have projected, including the estimate of transition costs, and also asked us to determine whether postsecondary institutions have the administrative capacity to meet their responsibility under a direct student loan program.

Mr. Chairman, that concludes my statement. We will be glad to respond to your questions or questions from the other committee members at this time.

[The prepared statement of Mr. Frazier (with an attachment) follows:]

## PREPARED STATEMENT OF MR. FRAZIER

Mr. Chairman and members of the committee: I am pleased to be here today to discuss our recent report that compared the relative federal cost of guaranteed and direct student loans.[1] The Stafford Student Loan Program, also known as the guaranteed student loan programs, constitutes the largest form of federal financial assistance to students seeking postsecondary education. In recent years these programs have been the subject of great scrutiny. Administrative complexity, high costs, and lack of accountability in the Stafford program have spurred the search for an alternative loan delivery system. The Federal Credit Reform Act of 1990 (P.L. 101-508) allows direct lending to be an alternative to the current loan guarantee system.

I will focus my comments today on the portions of our report that pertain to (1) the potential federal savings associated with substituting Stafford loans with direct loans and (2) the effect that a direct loan program could have on the administrative functions of the Department of Education and postsecondary educational institutions.

### STAFFORD LOAN PROGRAM

The Stafford program is a complex, multilayered delivery system. This system involves over 8,000 educational institutions, 10,000 commercial lenders, 45 state or nonprofit agencies, and 35 secondary market institutions. Students typically apply through their school to borrow from a commercial bank or other lender.

The original lender may hold the loan throughout its lifetime or sell it to a secondary market purchaser. Each state establishes or designates a guaranty agency to guarantee student loans under its jurisdiction. Guaranty agencies insure lenders against default and in turn are reinsured by the Department of Education. Guaranty agencies also monitor school and lender compliance with program rules.

The Stafford program's cost to the federal government consists primarily of interest subsidies and default claims. The Department pays interest on behalf of students while they are in school. It also pays lenders an interest subsidy throughout the life of the loan—the special allowance payment—to provide them with a competitive rate of return. These subsidies vary with interest rates. For example, as interest rates increased between 1987 and 1989, special allowance costs tripled. The Department also reimburses guaranty agencies for 100 percent of default claims, unless defaults rise above specified levels in a given year. Reimbursements for default claims have risen steadily over time. For example, such claims doubled between 1985 and 1989.

Figure 1 illustrates the flow of responsibilities under the Stafford program.

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[1] Student Loans: Direct Loans Could Save Money and Simplify Program Administration (GAO/HRD-91-144BR, Sept. 27, 1991).

## DIRECT LOAN PROGRAM

Our report contains a comparative analysis of a 1-year cohort of Stafford loans with a similar cohort of direct loans, as proposed by the National Association of State Universities and Grant Colleges. Under the Association's proposal, a direct student loan program could reduce the complexity and federal costs involved in delivering student loans. The Association's proposed program would eliminate commercial lenders, guaranty agencies, and secondary markets. Educational institutions would act as agents of the Department and use federal funds. to make loans to students. The Department would contract with private firms to service and collect the loans. The federal government would raise loan capital by issuing Treasury securities rather than paying interest subsidies to commercial lenders.

Direct loans would require different responsibilities for educational institutions and the Department. Institutions would assume some of the commercial lenders current duties, such as loan origination and disbursement. The Department would have increased oversight responsibilities for schools' and servicers' performance, but it would no longer have responsibility to monitor commercial lenders and guaranty agencies.

Figure 2 illustrates the flow of responsibilities under a direct loan program.

## WHAT WE FOUND

*Switching to Direct Loans Could Save up to $1.4 Billion*

Our analysis suggests that a direct loan program operating in place of the Stafford program in fiscal year 1992 could save over $1 billion—in present value. Our baseline estimate of the budgetary cost for a 1-year cohort of Stafford loans is $2.71 billion, compared with $1.55 billion for direct loans. Depending on the assumptions made, our estimated savings range from $620 million to $1.47 billion. These savings result primarily from the absence of interest subsidy (in-school interest and special allowance) payments to lenders. (See fig. 3.)

*Layers of Oversight Should be Reduced Under Direct Lending*

Under a direct loan program, the focus of the Department of Education's administrative burden would shift from an indirect to a direct oversight role. For example, rather than relying on guaranty agencies, the Department would need to ensure that loan papers are properly executed and documented. In addition1 instead of depending on banks to service loans, the Department would monitor the performance of its servicers to ensure that loan repayments are collected and credited promptly.

In other ways, however, a direct loan program would reduce some of the Department's administrative burden, and it could improve accountability. The Department would no longer monitor lenders or guaranty agencies, make interest subsidy payments to lenders, or reconcile special allowance and origination fee accounts with lenders. With fewer participants, the Department could focus its oversight effort on schools and servicers. As such, its ability to monitor the flow of funds in the program should improve.

*Many School Administrative Functions Simplified With Direct Lending*

Educational institutions would engage in different activities in a direct loan program. At the beginning of each year, schools would perform new tasks, such as (1) forecasting loan volume, (2) drawing down funds from the Department as they make student loans, and (3) reconciling student loan accounts at designated intervals. Schools that participate in the Perkins loan and Pell grant programs[2] currently perform tasks similar to those required to operate a direct loan program.

A direct loan program could simplify schools' administrative functions in the areas of loan disbursement, reporting, record-keeping requirements, and cash management. For example, schools probably would work with one servicer rather than hundreds of lenders and multiple guaranty agencies. In addition, the standardization that would accompany direct lending would eliminate problems associated with the multiplicity of policies, procedures, computer systems, and deferment forms. For example, lenders typically have their own reguirements—procedures and forms—for students requesting a deferment. Under a direct loan program, the Department of Education would be the sole "lender," with its uniform procedures and forms.

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[2] Federal programs administered by educational institutions on behalf of their students.

### GAO'S ON-GOING WORK

We recognize that uncertainties about the specific features of a direct loan program and how it might be implemented could lower our estimated savings. For example, we did not account for the costs that the transition from a guaranteed to a direct loan program would entail. Also, the Department may encounter unforeseen additional costs in administering the program, such as an inability to negotiate servicing contracts as favorable as those reflected in our assumptions. These costs would reduce the anticipated savings.

The House Education and Labor Committee's Postsecondary Education Subcommittee reguested that we: (1) refine the estimated savings—including transition costs—expected from a direct loan program, and (2) determine whether postsecondary institutions have the administrative infrastructure to meet their responsibilities under the program.

Mr. Chairman, that concludes my statement. My colleagues and I would be happy to answer any questions that you or the other committee members may have.

Figure 1: Flow of Responsibilities for Guaranteed Loans

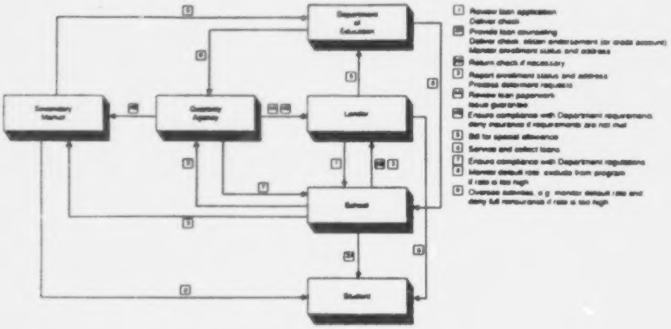

Department of Education
Secondary Market
Guaranty Agency
Lender
School
Student
Review loan application
Deliver check
Provide loan counseling
Deliver check, obtain endorsement (or credit account)
Monitor enrollment status and address
Return check if necessary
Report enrollment status and address
Process deferment requests
Review loan paperwork
Issue guarantee
Ensure compliance with Department requirements
deny insurance if requirements are not met
Bill for special allowance
Service and collect loans
Ensure compliance with Department regulations
Monitor default rate, exclude from program
if rate is too high
Oversee activities, e.g. monitor default rate and
deny full reinsurance if rate is too high

Figure 2: Flow of Responsibilities for Direct Loans

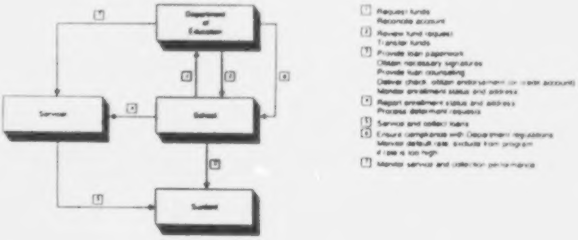
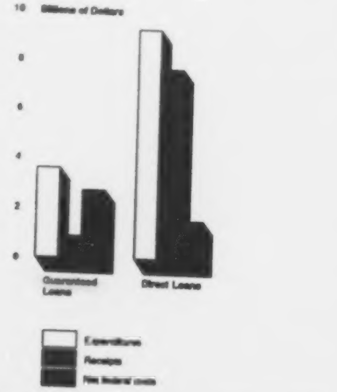

Department of Education
Servicer
School
Student
Request funds
Reconcile account
Review fund request
Transfer funds
Provide loan paperwork
Obtain necessary signatures
Provide loan counseling
Deliver check, obtain endorsement (or credit account)
Monitor enrollment status and address
Report enrollment status and address
Process deferment requests
Service and collect loans
Ensure compliance with Department regulations
Monitor default rate, exclude from program
if rate is too high
Monitor service and collection performance

Figure 3: Direct Loans Reduce Federal Costs



Note: Figures represent present value for a 1-year cohort of loans.

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Senator **Pell**. Thank you very much indeed.

First, Mr. Reischauer, do you have any specific reservations about the proposed language before us?

Mr. **Reischauer**. If what we are talking about is the IDEA program in broad, the answer is yes. The reservations are more associated not with the shift from a guarantee system to a direct loan system, but rather to the liberalizations and the changes in the repayment mechanism.

Were we to increase radically the loan limits—and I know there is a lot of pressure in the country to do this—you'd want to make sure that what we weren't simply doing is transferring responsibility for paying higher education from parents to children; that in a sense this might let the generation which so benevolently is transferring often to its children and its grandchildren huge Federal deficits and debt payments just one more burden. Parents would no longer have to maybe take out a home equity loan or save as much, and the burden could be shifted onto the children now going through school. This applies to any liberalization whether it is in the guarantee loan system or in the direct system.

Another concern I would have relates to the fact that if access to credit is made more readily available, schools will be under even less pressure than they are now to economize. Here, I sympathize with the remarks of Senator Durenberger. I too see a problem that is not dissimilar to the situation we face in the medical care area where we have divorced the consumption of the good from the payment that the consumer makes in such a way that there effectively is no control by the consumer on total expenditures. You have seen what it has gotten us to—for the first time I think in close to a decade, schools are now running up against the constraints imposed by a reluctant consumer. Because the costs are so high, they are looking for ways to economize. I think that is good, basically. You don't want that at the same time to deny access to students from lower income situations, but it is a trade-off, and it is one that we have to consider.

Those would be the two basic reservations that I would have.

Senator **Pell**. Mr. Frazier, do you have any specific reservations?

Mr. **Frazier**. Senator Pell, quite frankly, we hadn't really looked at IDEA. As a matter of fact, until late Thursday afternoon, we started taking a look at it when we were asked to come up and testify. But in the process of doing our work on the direct loan proposal that we reported a couple weeks ago, we did take a look at some of the things that are in the bill—for example, what would happen if you didn't collect insurance fees or if you didn't collect loan origination fees from the students. And certainly those are great ideas from the point of view of the students, who would not have to pay for those kinds of things, and it would be putting the money back toward the students.

We also took a quick look at the whole idea of capitalizing the interest and then having the student paying back; it certainly could save a lot of dollars.

By the same token I agree with Dr. Reischauer that the question there is quite a question about what would happen if we were to ask the IRS to collect the money and what all of that means. We really haven't analyzed that sufficiently to give you a good answer.

Senator **Pell**. Mr. Frazier, I notice that in your statement, you assume the department would pay the schools the one-time fee of $20 per loan to offset the administrative costs. Now, this assumption is not included in the Simon-Durenberger proposal. What savings do you believe that could result in?

Mr. **Frazier**. I'm sorry, Senator. I don't quite understand your question. I couldn't hear you.

Senator **Pell**. I'm sorry. The $20 per loan to offset the administrative costs is not contained in the Simon-Durenberger proposal. I think you thought it was. Therefore, what saving is that?

Mr. **Frazier**. We have not looked at that particular. The way we looked at it was that if you were to go to a direct student loan program, the school would now get the normal one percent administrative fee that now goes to the lenders. We also put into the factor the $20 fee that the school could collect for each loan that they approve as a way of offsetting some of the costs to the universities. But we did not look at it in terms of the Simon-Durenberger bill.

Senator **Pell**. Thank you very much.

My time has expired, and Senators, I thought we ought to be under a 5-minute rule, but anybody can exceed it if they've got something pressing.

I will turn now to Senator Kassebaum.

Senator **Kassebaum**. Thank you, Mr. Chairman.

First, my apologies for missing the opening comments. I hope I won't be asking something that you covered in your opening remarks.

Dr. Reischauer, some who have been promoting the IDEA program have been saying that defaults will disappear or decrease because students will not default and that they will either pay what they can afford or be forgiven any outstanding debt after 25 years.

Is this not sort of "creative accounting", as we tend to call it up here? I mean, at some point, it seems to me that this is almost smoke and mirrors. How does CBO measure or estimate defaults in this type of program—doesn't it have to be factored in in some manner?

Mr. **Reischauer**. Well, the issue here is really a definitional one of what do we call default.

Senator **Kassebaum**. Yes, how you define default.

Mr. **Reischauer**. And when an individual is not required to make a payment under the law, as would be the case for a low-income borrower under the IDEA program, a person who was below the tax threshold, that would not be a default for the simple reason that it is defined as not being a default. If the individual's income rose in subsequent years, the individual would be responsible for paying again, and not only paying, but paying the amount that was not paid in the previous year.

So I think that it really isn't smoke and mirrors. As one who——

Senator **Kassebaum**. You say it isn't?

Mr. **Reischauer**. It is not, no. As one who lives in the world of smoke and mirrors, I attest that this is not an egregious example of it.

Senator **Kassebaum**. Well, as much as we would like to expand access—which is really what is at the heart of this proposal, it seems to me—it seems almost impossible, first, to be able to assure some program integrity, which we have tried very hard to do. Second, it really puts a lot onto the IRS to become the collection agency, does it not? Have either of you factored the role of IRS into your analyses?

Mr. **Reischauer**. Well, there certainly would be additional administrative costs and administrative burdens on the IRS. The reason why defaults would disappear is they would have a new name; they would be called "tax evasion". And the amount that was not paid for a student loan would be just small change compared to what should have been paid to the IRS for general tax liability. So I don't think this is a serious problem.

Now, whether it is desirable to get the IRS into collecting payments is a separate issue and one which traditionally the Treasury and the IRS have been extremely reluctant to get into. But I don't speak for them, and the Secretary before us indicated that at least there was a crack in the administration on that issue.

Senator **Kassebaum**. Mr. Frazier, do you have any particular comment on that as far as the IRS role? I suppose it is a separate issue, yet it seems to me it is kind of the heart of the matter. It is the essence of how this will be handled in processing, and in repayment.

Mr. **Reischauer**. There are some very interesting behavioral responses that might come out under the IDEA programm, which is that individuals of course get to choose how they file their income taxes—married individuals—do they file jointly, do they file separately. What would happen under IDEA? Well, one can imagine circumstances in which a spouse—I will be a sexist at this point and say a women who had large IDEA loans—she and her husband decided to file separately. Therefore, if she had dropped out of the labor force to raise a small child, for example, and had no income, she would have no payments under the IDEA program, so there would be a loss; there would be a gaming of the system, in effect. But at the same time, filing separate returns would cause the family's income tax liability to rise. So the Federal Government would get, in a sense, a boost to its general revenues while at the same time the Department of Education would take a loss.

Mr. **Frazier**. Senator, my response would simply be that using the IRS as a collector is one that certainly would need a lot of time and attention, and we would really need to study that very carefully and get input from all concerned about that, because that's a very tough call.

Senator **Kassebaum**. That was not part of the aspects of it that you examined?

Mr. **Frazier**. That's correct; we have not looked at that aspect.

Mr. **Reischauer**. The direct loan program that was approved by the House committee doesn't have income-contingent repayments and has a separate mechanism for collecting the direct loans, which is perfectly possible. When one goes to an income-contingent system—and if we are defining this as all income—then it is almost impossible to get away from having the IRS have some involvement in the collection process.

Senator **Kassebaum**. Thank you very much.

Senator **Pell**. Thank you very much.

Senator Simon.

Senator **Simon**. Thank you very much, Mr. Chairman.

I thank both of you, and particularly Mr. Frazier, let me thank you and your colleagues at GAO for an excellent report.

Just in response to Senator Kassebaum's remarks, we have done this similarly in the Chrysler situation and in the Lockheed situation, where we had Treasury bill rate plus. And that is what we are doing here. And I would add if we get the time—and I hope we will, and I think we will have the time to examine this more carefully, Mr. Chairman—if we get the time, and we're not rushed into doing something on the floor precipitously, we also then have to measure as part of the gain for the Federal Treasury tens of thousands and maybe hundreds of thousands of young people who can go on to college—not just young people—people who can go on to college and there will be a sizable increment in their wages and in what they pay back to the Federal Treasury.

Mr. Reischauer, from your comments, let me just underscore here. "The Congressional Budget Office estimates that for every dollar guaranteed through the Stafford loan program, the Federal Government will incur a subsidy cost of 28 cents." That's pretty powerful. "Subsidy rates under the IDEA program are almost sure to be lower than the current rates." And then you say, "For the first time, budgetary accounting does not impede making rational comparisons between guaranteed student loans such as the Stafford loan program and direct loan programs such as IDEA." And then you finally say, and I agree with this, that "whatever steps we should make, we should make with caution." That's why I frankly favor slowing this process down a little bit.

Senator Durenberger and I have suggested that it shouldn't take effect until 1994-'95; that seems to me we are using maybe an excessive amount of caution, but we are using caution.

Let me ask both of you, if you feel on top of this thing enough to respond, one of the suggestions that has been made is that colleges and universities at some point, maybe 1 year before each school year, would make a choice of the current system or this system, because there are people who are worried about what would happen.

Any comments from either of you?

Mr. **Frazier**. I don't know about Bob, but I have not thought of that possibility at all, so I would rather not comment on it at this time.

Senator **Simon**. OK.

Mr. **Reischauer**. I think as a general rule it would be an undesirable set of choices. We already have an extremely confusing array of programs out there. We have tremendous complexities that our government agencies are trying to grapple with, and what this would do is just make the situation worse.

As the Secretary already said, if one were to go to a direct loan program such as the IDEA program, the Department of Education would still have to run two administrative structures for roughly 20 years until the old GSL programs were wrung out of the system. We are stuck with that, and I don't think that that should be an impediment to change, but it is something that one wants to consider.

One of the beauties of this is that, according to the GAO report, I think, there would be some simplification in the long run from this situation, from a movement to a direct loan program in which the Federal Government dealt only with 10,000 or so schools as opposed to many tens of thousands of schools and lending institutions and guarantee agencies and fellow travelers. [Laughter.] You might have a few less people in the room when you had hearings.

Senator SIMON. Do you want to define "fellow travelers"?

Mr. REISCHAUER. I feel them on my back right now. [Laughter.]

Senator SIMON. Mr. Frazier, one of the points that you make in your report is that this would simplify paperwork. One of the concerns that a lot of small colleges and universities have who have not had a chance to examine this yet is that if we move over to this, this would complicate their paperwork. What is your feeling?

Mr. FRAZIER. With the present guaranteed student loan program we have today, we have—it depends on how you count it—at least 35 to 50 guarantee agencies that any small college may have to deal with. I believe we estimate we have over 10,000 lenders that they may have to deal with, and so on. So we really believe that in terms of making things simple, as some of our charts show, that you don't have all of these entities to deal with. You don't have each one with their own computer systems or their small quirks. And if you could get some of this standardized—dealing with one lender certainly seems to us to be a simpler thing, and it could save even the small schools some administrative burdens.

Senator SIMON. Thank you.

Thank you, Mr. Chairman.

Senator PELL. Thank you.

Senator Durenberger.

Senator DURENBERGER. Thank you, Mr. Chairman.

Mr. Frazier, I appreciated your last response to my colleague's question because that is part of the problem that brought all of us to look to the folks with the great ideas, some of whom are in this room, to find solutions to this problem.

Is it possible for you to help us understand a little bit the difficulty that graduates today are experiencing and prospectively are likely to experience in loan repayment under this current system? I think my colleague from Minnesota had a task force, the Student Loan Task Force made up of a coalition of non-profit human service providers, working in Minnesota, particularly with low-income people. This grup looked at the constant problem of repayment at periods of time when on the margin income just doesn't meet the requirements of repayment, and the fluctuation in repayment obligation depending upon when you borrowed the money. This whole series of issues just seem to present access impediments to people who are either headed into the system now or have come out of it. Can you help us to understand that part of it a little better?

Mr. FRAZIER. I am going to defer to one of my colleagues.

Senator DURENBERGER. Thank you.

Mr. EGLUN. I think there are a couple of issues there. One is that many times, if a borrower would contact his or her lender when they do find themselves in financial difficulties, they can work things out. I think there has been more of an opportunity in the last few years, especially trying to work on minimizing the defaults, to do that. Obviously, conceptually an income-contingent loan program provides a lot more flexibility. But as I think it has been discussed here a little bit earlier, there are a lot of operational problems that would need to be worked out as to how to get a better handle on that. I think that is part of the unknown that we really have not looked at, and I think some of the issues that would have to be dealt with before we could talk more authoritatively about it.

Mr. **Reischauer**. Can I interject into this discussion?

Senator **Durenberger**. Yes, please.

Mr. **Reischauer**. When we are talking about students who have gone successfully through a 4-year undergraduate program or graduate program, the research evidence doesn't suggest that loan burdens are excessive, viewed as unfair by them, as not a good investment, changing their lifestyles in any perceptible way. There has been some research funded by the Massachusetts Guarantee Agency and some stuff done by Professor Skidmore that really has shown that there isn't a tremendous problem. Now, that might be yet, and it could develop in the future. There obviously is a problem when we are talking about students who have taken on large loan burdens to finance a proprietary school education or a junior college education, and their income prospects are not particularly good and their chances of finding themselves unemployed when the economy turns weak are relatively high.

That is a tough problem for public policy, and the only way to get around that is to have loan limits vary according to the prospective income of the educational investment that you are making; and yet I think there is a reluctance to go that route. But right now we in effect allow students at junior colleges or proprietary schools to take out loans that in relation to their expected future incomes are much, much higher than would be the case for an individual at a 4-year college.

Senator **Durenberger**. Bob, I need to ask you some questions because you have been at the business of trying to simplify the loans a lot longer than I have and probably a lot longer than anybody at this table. Is it not possible that in the structure of the formula for repayment, either in the length of the period for repayment, in the 2 percent over T-bill rate, and whether or not you go all the way to 2 percent in this particular case or lower than that, in the minimum number of years that you have to pay back, like 12 versus the 25 of forgiveness, in various of those ways? Is there not a way to structure a formula that is adjustable from time to time to accommodate a full revolving repayment in this system—as long as you accept the idea that some may pay back more than others will pay back? But combining all of these various features—is there not a way to construct a formula that would make this a fully refunding revolving program?

Mr. **Reischauer**. Yes, there certainly is. There are many schemes that have been out there in the past along those lines.

Senator **Durenberger**. Are we close to it with this bill?

Mr. **Reischauer**. Effectively no, because what you are doing here is nobody is paying back more than they should in a quote "fair" sense. In a sense, the amount you pay back from the perspective of the government under the IDEA program really falls into two categories—the folks who don't pay back the full amount through 25 years are going to get a government subsidy; the people who die, obviously, or fall into the other circumstances that relieve them of their loans don't pay back. All the others do under the IDEA program is really have the number of years in which they are making their payments to the government vary, the size of the payment.

So if we had two individuals each of whom took out $10,000 worth of loans, and they had different incomes, one might pay it back in 8 years and the other in 15 years, but the present value of their payments back would be identical, and now that makes it easier, obviously, for the lower-income person than the other. But we in a sense are not engaged in a lot of redistribution in this mechanism. And what you raised was the possibility that there could be a separate trust fund, a revolving trust fund, but that revolving trust fund would have to have some way to get the money needed for the people who died, the people who never had taxable income or who throughout the 25 years didn't pay back enough to equalize the cost of their loan. And that in and of itself requires that somebody be charged more; that a significant profit be made off of some students. And this program really doesn't do that. It could be adjusted to do it.

Senator **Durenberger**. Thank you.

Senator **Pell**. Senator Wellstone.

Senator **Wellstone**. Dr. Reischauer, is it reasonable to assume that a 2 percent margin would cover the administrative and carryover costs on the direct loan?

Mr. **Reischauer**. You are talking about a T-bill plus 2 rate for the interest rate that is implicitly put on?

Senator **Wellstone**. Yes.

Mr. **Reischauer**. Once again, the answer to that question depends very much on what the mix of students is who take out loans and how much they take out in this program. I don't think the administrative costs are likely to be a significant variable, and GAO certainly knows a lot more about this than I do. I think it is really when you get into this kind of program how many people each year fall below that tax threshold and don't have to pay or drop out of the system through death, disability or whatever.

Senator **Wellstone**. Maybe I could ask Mr. Frazier, then. The linchpin of this is to lessen the administrative costs for direct loans, right, and that applies to the IDEA.

Mr. **Frazier**. The real issue here is that the Federal Government borrowers money cheaper than a bank does, so that if the Federal Government is providing the money directly, it is providing cheaper money, and that is why a direct loan program, if everything else is the same, will be cheaper than a program in which you have to go out and entice agents in the private sector to do this for you.

Now, there is nothing that can be done about that. We have a better credit rating, for some strange reason, than Citibank, although many people would say we are just Citibank writ large.

Mr. **Frazier**. I think we do have a better credit rating, but I also think it is difficult to answer if the T-bill plus two will cover it because I agree with all of those factors, but we also don't know how well we will get control of the default situation. So I am just adding that you would have to get control of the default situation also to know if 2 percent is adequate or not.

Senator **Wellstone**. Mr. Frazier, from the borrower's point of view, would the IRS—I'm trying to get a handle on IRS being the collection agent—simplify or complicate matters from the point of view of the borrower? How exactly would that work?

Mr. **Frazier**. Yes, Senator Wellstone. That's the part that I am most uncomfortable with because I really have not looked at the IRS collection method at all. I just can't answer that.

Mr. **Reischauer**. I would presume from the borrower's standpoint it would be a whole heck of a lot easier. What you do is you change your wage withholding; if you had a job, more would be taken out at the end when you calculated your tax return. You'd have a couple of extra lines to add to it. That strikes me as a lot simpler than making monthly or quarterly loan payments, and you save the 29-cent stamp.

Senator **Wellstone**. Last question. I was a college teacher for 20-some years, but as Len Wenc, the financial aid director at Carleton College knows, I don't know the ins and outs of this. So could the two of you just briefly summarize what you see as being the pluses and minuses of status quo versus direct loan.

Mr. **Frazier**. Very briefly, I think the direct loan does offer the opportunity to possibly save money because the government can borrow money more cheaply. I think the direct student loan program also has an opportunity to possibly simplify things because you don't have as many players.

Additionally, last but not least, to entice the lenders you are going to have to pay an additional cost.

Senator **Wellstone**. Dr. Reischauer.

Mr. **Reischauer**. I think Mr. Frazier put his finger on the advantages. The real issue is what we are comparing here. The IDEA program is not simply GSLs in a direct form. It involves three changes. One is the shift from guaranteed loan format to a direct loan format, and there are a lot of appealing characteristics of direct loan formats. The other is a transformation of the repayment mechanism to an income-contingent one, which has certain advantages, but it might prove to be one in which the consumer doesn't like the product, that they'd rather have a fixed payment for a known set of time rather than an uncertain payment extending as much as 25 years or getting over with in 8 or 12, something like that. And third, it involves tremendous program liberalization.

I think what you really should do is compare the same loan system under a direct and a guaranteed system and then the advantages Mr. Frazier pointed out are the ones you should look at, and the disadvantages involve the question of whether the Department of Education and the other administrative agencies can keep two balls in the air when they have had a difficult time having one in the air in recent years, and whether we want to get the IRS or some other collection into this, which could create new complexities.

Senator **Wellstone**. I'd like to thank the panel.

Thank you, Mr. Chairman.

Senator **Pell**. Thank you very much.

Senator Jeffords.

Senator **Jeffords**. Thank you, Mr. Chairman.

It has been very interesting. I would first like to ask this question. I'm a little confused on where the origination fee and the insurance fee went with respect to your projections, Mr. Frazier. I thought you said in your testimony recently that it would go to the universities to defer costs.

Mr. **Frazier**. Senator Jeffords, the loan origination fee is returned to the Department of Education. It is a fee that helps with the costs of the program. In other words, if he had no other deductions, the student would not get 100 percent of the loan.

Senator **Jeffords**. I understand that, but I think the bill wipes those payments out totally, so that is what confused me and how important that was to your estimates as to savings.

Mr. **Frazier**. Well, on the point of our estimate, if you were to reduce the insurance fees or discontinue the insurance fees as well as the loan origination fees, then our estimate would go down; it would be reduced.

Senator **Jeffords**. Do you know how much?

Mr. **Upshar**. Senator, it would go down to $400 million. But be mindful of the fact that that is not within the IDEA concept, our analysis.

Senator **Jeffords**. I understand. I just wanted to make that point clear. Another one you have is a 20 percent default rate. I know the net default rate for GSLs right now is about 10 percent. Why did you use 20 percent? The gross is getting up there, the net default rate—the reason I ask what impact that would have is that if you don't have defaults under the IDEA system other than the type you talked about, which are not measurable in the same context, how would that affect the cost estimates that you had, or savings estimates?

Mr. **Upshar**. What we tried to do in our analysis was to keep terms such as default rates constant, and the 20 percent was used to maintain a conservative flavor of our estimates.

Another thing we did was we identified what impact switching certain assumptions would have on our overall results. Now, default rates were identified in our analysis as being highly sensitive, meaning that minor changes in our default rate assumptions had disproportionate impacts on our estimates. The exact dollar figure escapes me at the moment, but we could certainly get back with you in a matter of time on that.

Senator **Jeffords**. I'd appreciate that because we are trying to get a look at the cost to the government of these things, and I think those are rather important assumptions, and we should know exact what they are.

In your study, you didn't measure the impact of the cost on the institutions for administering the program at all?

Mr. **Frazier**. No, sir, we have not done that. That is one of the things that we have been asked to look at, and we are in the process of getting a job started to take a look at the impact on the institutions.

Senator **Jeffords**. I think the other questions I had have been answered, Mr. Chairman, so I'll stop early.

Senator **Pell**. Thank you.

I thank the panel very much—Senator Simon.

Senator SIMON. Thank you, Mr. Chairman. I have just a couple of quick comments.

One, while, Mr. Reischauer, in the aggregate the Massachusetts figures you cite are correct, there is no question that a lot of students face real problems right now repaying loans, including those who get bachelor's degrees. A student who graduates owing $18,000, for example, and is making $10,000 per year under the current program has to pay back $264 a month, and under our program would pay back $74 a month.

Second, just to underscore what you said to me, Mr. Reischauer, in your letter of October 25, "unless it is mostly low-income students who borrow under the IDEA program, establishing the IDEA program in place of current loan programs would break even and most likely produce savings." I would ask, Mr. Chairman, that the letter be included in the record.

Then finally, the point was made that parents might take advantage of it and be relieved a little. There is no question that that is the aim, to relieve parents a little of some of this responsibility and assume that students can get to college through this kind of assistance and students will repay it. But in the process we will also get a great many more students.

Thank you, Mr. Chairman.

Senator PELL. Thank you very much indeed.

Thank you, Dr. Reischauer, Mr. Frazier, for being with us.

We now come to our third panel which includes: Dr. Bill Trueheart, president of Bryant College in Smithfield, RI; Dr. John Silber, president of Boston University; Mr. Leonard Wenc, financial aid director at Carleton College in Northfield, MN; Dr. Oswald Bronson, president of Bethune Cookman College in Daytona Beach; and Ms. G. Kay Jacks, financial aid director at Colorado State University.

I thank the panel very much indeed for being with us. Let's start off with a witness from Rhode Island.

Dr. Trueheart, welcome.

## STATEMENTS OF WILLIAM TRUEHEART, PRESIDENT, BRYANT COLLEGE, SMITHFIELD, RI; JOHN R. SILBER, PRESIDENT, BOSTON UNIVERSITY, BOSTON, MA; LEONARD M. WENC, FINANCIAL AID DIRECTOR, CARLETON COLLEGE, NORTHFIELD, MN; DR. OSWALD P. BRONSON, SR., PRESIDENT, BETHUNE COOKMAN COLLEGE, DAYTONA BEACH, FL, AND G. KAY JACKS, FINANCIAL AID DIRECTOR, COLORADO STATE UNIVERSITY, FORT COLLINS, CO

Mr. TRUEHEART. Good afternoon, Mr. Chairman and members of the committee. I am Bill Trueheart, president of Bryant College.

Bryant is a relatively small institution, a small independent professional college in Smithfield, RI. I appreciate this opportunity to appear before you today to briefly expand upon my views expressed to Senator Pell several weeks ago regarding proposals to radically restructure Federal loan programs.

At Bryant, 46 percent of our full-time undergraduate students receive some form of Federal loan assistance, totalling more than

$4,600,000. Nearly 12 percent of our full-time undergraduates receive about $625,000 in Pell and SEOG grants.

It was our students' reliance on Pell Grants and on Federal education loans that initially caused me to become concerned about the proposed restructuring of the loan programs and which cause me now, after further study and reflection, to urge your committee to maintain and improve the current program structure throughout the reauthorization process.

Let me be more specific about those aspects of the several proposals for change that we enthusiastically support.

First, we support efforts to create an early awareness of college opportunities and the financial aid programs to access them.

Second, we favor efforts to increase funding levels for the Pell grants and loan programs, and we favor your committee's efforts to do so with mechanisms to ensure greater accountability.

Third, we support efforts to make the best possible use of every taxpayer dollar spent in support of Federal aid programs, and we believe that monitoring performance is essential to justify taxpayer confidence.

Last, and most importantly for today's discussion, we favor taking all steps possible to achieve administrative simplicity and consistency in the delivery of grant and loan programs.

In our view, the current loan programs serve our students well, they serve our colleges well, and they serve the Federal Government well in maximizing the leverage of the Federal dollar.

Current programs in large measure are well-managed by the participants, and this has resulted in minimal Federal risk and cost.

In Rhode Island, for example, the Federal default trigger rate in 1990 was a low 2.06 percent. At Bryant our default rate is one of the lowest in the Nation; we have just under 5 percent for Perkins loans and a little over 5 percent for Stafford loans.

We believe that the existing loan programs can and should be improved by implementing changes to achieve the goals mentioned earlier, but without incurring the substantial risks to students and institutions that proposals like the direct loan program and the IDEA credit program present.

One of the most troublesome aspects of the recent public debate on these proposals is that the arguments tend to compare the lofty concept of direct loans with the mundane detail and daily operational problems and weaknesses of the current loan programs.

Now, we are all very familiar with the warts of the current loan programs, and we are understandably drawn to an appealing vision of how a utopian loan program might operate. But at bottom, as you have heard from others, to determine whether a new, major national loan program will work, we must have much more focused examination of the fundamental operational issues related to cost-effectiveness and efficiency of the services to our Nation's students and colleges.

I want to illustrate my point with an example. As many of you know, one of the criticisms of most of our current Federal programs levelled by students and financial aid officers is that it is difficult to identify and speak to the customer service staffs at lending or loan servicing companies to ask questions about a loan or check on a payment.

This problem is caused in large part by the sheer volume of students compared to the lenders and servicers. It is therefore surprising that proponents of the direct loan concept assert that it would be simpler for students to call the central Department of Education number for answers to their questions. Under the IDEA proposal, students might have to call the Internal Revenue Service for information.

My point here is that in theory the proposal may sound simpler, but can you imagine that it would really be less complicated trying to get questions answered from a large Federal agency or even more difficult, their lowest bid contractor?

Having been a student of public administration for a long time, and as a former director of the master in public administration program at the Kennedy School of Government, such promises concern me greatly. Please understand that I have deep respect for Federal public servants and the enormous challenges they face in administering Federal programs, but responsiveness and ease of access for millions of students, for any large Federal department, is unlikely to be more effective than our present system.

My point here is that our present loan system is based on one of the most successful public-private partnerships in recent history. Our present loan programs are fundamentally sound, and our present programs work reasonably well for colleges and universities.

I want to underscore the program that the direct loan and the IDEA credit proposal, I believe, would place a great hardship especially on smaller colleges and universities.

These proposals also contain many other questionable assumptions and promises. They promise that their programs will be less expensive for the Federal Government even though, as I understand it, the Treasury will have to borrow all of the money to provide new loans each year, and then later, borrow more to pay the interest that is accruing and unpaid on the previous year's loans.

I understand that this feature alone would increase the Federal debt by $12-$15 billion each and every year through the end of the century.

Further, the government would also assume all of the default risks, thereby increasing its liabilities for default, for all servicing and collection responsibilities and all risks associated with interest rate movements.

It is very unlikely, in my view, that the promises of improved monitoring of program performance and integrity can be achieved.

Our current programs involve guarantee agencies that have monitoring responsibility and financial accountability. The proposed programs would have no such intermediaries between the government and risk.

Currently the 50 largest holders of student loans, banks and secondary markets, own almost 75 percent of all the outstanding loans, or about $40 billion of the $52 billion outstanding. It would undoubtedly be far easier to more rigorously review their performance to protect the Federal investment than it would be to review the performance of thousands of colleges and proprietary schools which under these proposals would essentially be given Federal checkbooks to draw on.

Proponents of the proposed programs also offer promises of administrative simplicity for students and schools alike. We believe that the administrative costs for small colleges like Bryant especially will be several times greater than appears to be assumed.

In closing, Mr. Chairman, please be assured that I did not intend to throw cold water on the committee's attempts to explore creative ways to improve the delivery of educational loan capital. Far from it. Rather, I appear before you today to convey my belief that those objectives can be achieved through modifications of the existing programs in ways that will not subject students or postsecondary institutions or the government to unnecessary risks and costs.

I appreciate the opportunity to share my views with you, and I'd be pleased to answer questions.

Thank you very much.

[The prepared statement of Dr. Trueheart follows:]

## PREPARED STATEMENT OF DR. TRUEHEART

Good afternoon, Mr. Chairman and members of the committee, I am Bill Trueheart, president of Bryant College, which is a moderately-sized independent college located in Smithfield, RI. I appreciate this opportunity to appear before you today to briefly expand upon my views expressed in a letter to Senator Pell several weeks ago regarding proposals to radically restructure federal education loan programs.

Bryant College offers programs in business and related disciplines to undergraduate and graduate students. Our total enrollment is approximately 5,000 students, with approximately 2,934 full-time undergraduate students—the majority of whom come from New England and the mid-Atlantic states. Approximately 20 percent of our undergraduates (575) are commuters; 80 percent live on our campus.

Bryant College's endowment is modest and, like many of our sister institutions, we must rely heavily upon tuition and fee revenues. Presently, 66 percent of our revenues come from tuition and fees. This year, the total cost for a resident student (tuition and fees, room, board, incidental expenses) is $18,630.

Forty-six percent of our full-time undergraduate students receive some form of federal loan assistance totalling $4,656,000 in 1991-92. Nearly 12 percent of our full-time undergraduates receive nearly $625,000 in Pell and SEOG grants.

To serve our financial aid recipients, we have a small staff of four full-time professionals (two of whom job-share) and 6 work-study students.

It is our college's reliance on tuition income and our student's reliance on Pell Grants and federal education loans that initially caused me to become concerned about the proposed restructuring of the loan programs and which cause me, after further study and reflection, to urge this committee to maintain and improve the current program structure throughout the Reauthorization process.

Let me be more specific about those aspects of the several proposals that we (and many others) enthusiastically support:

1. We support efforts to create an early awareness of college opportunities and the financial aid programs to access them.
2. We favor efforts to increase funding levels for the Pell grants and loan programs and the committee's efforts to do so with accountability.
3. We support efforts to make the best possible use of every taxpaye4r dollar spent in support of federal aid programs and believe that monitoring performance is essential to justify taxpayer confidence.
4. Lastly, and most importantly for today's discussion, we favor taking all steps possible to achieve administrative simplicity and consistency in the delivery of grant and loan programs.

In our view, the current loan programs serve our students well, they serve our college well and serve the federal government well in maximizing the leverage of the federal dollar. The programs are well managed by all participants resulting in minimal federal risks and costs. In Rhode Island, for example, the federal default trigger default rate in 1990 was a low 2.06 percent.

At Bryant we believe that existing loan programs can and should be improved by implementing changes to achieve the goals mentioned above and many more without incurring the substantial risks to students and institutions that proposals like the direct loan program and the IDEA Credit program present.

One of the most troublesome aspect of the recent public debate on these proposals is that the arguments have tended to compare the lofty concept of direct loans with the mundane detail and daily operational problems and weaknesses of the current loan programs. We are all very familiar with the warts of the current loan programs and are understandably drawn to an appealing vision of how a Utopian loan program might operate—but, at bottom, to determine whether a major new national loan program will work, we must have focussed examination of fundamental operational issues and the details related to the cost effectiveness and efficiency of services to the Nation's students and colleges.

Let me illustrate my point with an example. One of the criticisms of our present federal loan programs, leveled by students and financial aid officers, is that it is difficult to identify and speak to the customer service staffs at lender or loan servicing companies to ask questions about their loans or to check a payment.

This problem is caused in large part by the sheer volume of students compared to lenders and servicers. It is, therefore, surprising that proponents of the direct loan concept assert that it would be simpler for students to call the central Department of Education telephone number for the answers to their questions. Under the IDEA proposal students might have to call the Internal Revenue Service for such information. In theory, this proposal may sound simpler but can you imagine that it would really be less complicated trying to get a question answered by a single federal agency or their low-bid contractor?

Having long been a student of public administration and as a former director of the master in public administration program at the Kennedy School of Government, such cavalier promises concern me greatly. Please understand that I have deep respect for our federal public servants and the enormous challenges they face in administering federal programs. But responsiveness and ease of access for millions of students for any large federal department is unlikely to be more effective than our present system.

My point here is that our present loan system is based on one of the most successful public/private partnerships in recent history. Our present loan programs are fundamentally sound.

The direct loan and IDEA Credit proposal contain many additional questionable assumptions and promises. They promise that their programs will be less expensive for the federal government even though the Treasury will have to borrow all of the money to provide new loans each year and then later borrow more to pay the interest that is accruing and unpaid on the previous year's loans. I understand that this feature alone will increase the federal debt by $12-$15 billion each and every year through the end of the century. Further, the government would also assume all default risks thereby increasing it's liabilities for default, all servicing and collection responsibilities and all risks associated with interest rate movements.

It is also very unlikely, in my view, that the promises of improved monitoring of program performance and integrity can be achieved. The current programs involve guarantee agencies that have monitoring responsibility and financial accountability. The proposed programs would have no such intermediaries between the government and risk. Currently, the 50 largest holders of student loans, banks and secondary markets, own almost 75 percent of all the outstanding loans or $40 billion of the $52 billion outstanding. It would undoubtedly be far easier to more rigorously review their performance to protect the federal investment than it would be to review the performance of the thousands of colleges and proprietary schools which, under these proposals, would essentially be given federal checkbooks to draw on.

Proponents of the proposed programs offer promises of administrative simplicity for student and school alike and even the lure of a $20 per loan administrative fee to be paid to a college for each loan. Such administrative allowances have been authorized before for colleges but have never been paid even though the colleges have performed the duties for which the allowance was intended.

In closing, please be assured that I did not intend to throw cold water on your committee's attempts to explore creative ways to improve the delivery of education loan capital. Far from it. Rather to convey my belief that those objectives can be achieved through modifications of the existing programs in ways that will not subject students or post-secondary institutions or the government to unnecessary risks.

I appreciate the opportunity to share these views with you and would be pleased to respond to any questions which you may have. Thank you.

Senator PELL. Thank you very much indeed, Dr. Trueheart.

Dr. Silber.

Mr. Silber. Mr. Chairman, Senator Metzenbaum and members of the subcommittee, I welcome this opportunity and am privileged to testify today. This is a subject on which I and colleagues of mine at Boston University have been working intensively since about 1974 and from the period of 1974 to 1978 developed many models of how such direct loan programs would work and developed them in terms of a tuition advance fund—which I know shares at least three important features with the program that has been proposed for your consideration this afternoon.

The proposed amendments to Title II contain, in the Income-Dependent Education Assistance Credit, IDEA, a proposal that is not only a step, but actually several steps, three steps, in the right direction toward a rational system for financial aid that will remove some of the last barriers denying higher education to young people of America and will do so in a fashion that will relieve their parents and the taxpayers of a heavy burden; a no need assessment, which removes much waste and confusion and also fraud; an income contingency and IRS collection. Those are three important, notable steps, and in the development of the TAF proposal, we have developed much information there that I think can be useful to you in the refinement of this project over the next 2 years.

IDEA embodies these crucial steps that will bring new realism, effectiveness and reduced opportunity cost to Federal efforts for financial aid.

The first of these is that aid under IDEA is available to all qualified students without regard to the financial situation of their own families. I think that complication you have introduced to say be sure that they are not eligible for Pell grants before you make them eligible for these is truly unnecessary, because if you have the choice between having a grant that you don't have to repay and loan that must be repaid at substantial interest, I don't believe you are going to have to take very much time to persuade a person to take the grant instead of the loan.

At present there is no reliable way of determining the accuracy of claims of financial independence made by students, and a former Secretary of Education estimated fraud in such reports at about 30 percent. Rather than assessing the need through a bureaucracy that is cumbrous, expensive and not very accurate, IDEA treats students on their own terms rather than as children of their parents. Judged on their own terms, of course, most students are indigent or nearly so. But they graduate from college with immensely increased earning power, well able over time to repay the price of their education. IDEA shifts a heavy and indeed increasingly impossible burden from the shoulders of parents to lay a far lighter and reasonable burden on the shoulders of the students who are the direct recipients of the education they receive.

By dispensing with traditional concepts of needs assessment, IDEA removes a heavy administrative burden from institutions of higher education and the Federal Government. This is increasingly a needless burden for, as the price of tuition rises, an increasingly large proportion of all students have need and now have massive need.

A second key principle embodied in IDEA is repayment through payroll withholding under the watchful eye of the Internal Revenue Service. At a stroke, repayment of loans under IDEA is guaranteed so long as graduates have income. With the IRS involved—and it would be a requirement, I presume, under this legislation that all who take advantage of such loans will have to file income tax returns—there will be no default through bankruptcy and only three ways to evade payment: death, disability, or Leavenworth. And none of these is especially attractive. Thus, another massive administrative burden would be lifted—that of locating and pursuing delinquent graduates. The cost to the government would be minimal, that of adding a new box to the W-4 form, which I think is the simplest way to do it, and transferring funds from one account of the Treasury to another.

We have already noted the model in the form of the arrangements used to collect Social Security taxes and voluntary political contributions. Those who speak of the drastic complications that would be imposed on the IRS overlook the fact that the IRS, with great simplicity, was able to accommodate to the voluntary political contributions.

The third important principle embodied in IDEA is income-contingent repayment. This takes into account the fact that graduates will attain differing levels of financial success. There is no reason why young investment bankers should not repay quickly, but graduates working for nonprofit organizations and doing work at least as valuable to society will be unable to repay at the same rate. And if they have pursued expensive educations and unremunerative careers, such as doctors working in inner-city clinics, they may be forced into bankruptcy no matter how hard they work or how responsibly they budget their income, if their repayment must be direct instead of contingent on income.

Under IDEA, there is no reason why the Federal Government should not serve as the lender, rather than transferring this function at a substantial cost to the banks—a cost paid for, by the way, by students. I see no reason to prefer the interests of the banks to the interest of educating our student body and increasing the intellectual capital of this country.

With IRS collection, IDEA loans are a sure thing for the lender, obviating most of the service functions provided by banks. There is no reason for banks to be provided with premiums to administer a risk-free program which the government can administer more cheaply and without any additional risk.

Mr. Chairman, in 1978 Senator Kennedy and many others introduced legislation to enact another proposal along similar lines to IDEA. This grew out of a proposal I had made the year before, the Tuition Advance Fund, known as TAF, an income-dependent program in which repayments were to be made through IRS.

Besides many similarities, IDEA and TAF have many differences, which I shall not dwell on here. I do see, however, one serious problem with IDEA. Interest accrues while students are still in college. This accrual to principal, combined with an interest rate of T-bill plus 2 percent, will ensure that many graduates will experience negative amortization. Even after they begin repayment, their loan balance will increase rather than decline.

I believe that any workable program will need to address this difficulty in some way, perhaps by cross-subsidies between richer and poorer students as in the case of H.R. 2336, or the government could forego its 2 percent premium on the T-bill rate. It is prepared to borrow money at the T-bill rate; why should it not lend at the same rate, for these loans are an investment in our most precious natural resource—human intelligence. I think it is very important to distinguish between investment and consumption. For us to set aside funds, to borrow funds at T-bill rates and have them repaid at T-bill rates in order to increase the intellectual capital of this country and make us more competitive by a better work force is a lot better than to talk about doing the same thing and taking on additional debt that will have to be repaid which is for consumption instead of for investment.

I was surprised that the undersecretary of education failed to make the important distinction between taking on an obligation for the purpose of investment as opposed to consumption.

TAF, I believe, was a good idea and still is. Its time had not come because in 1978 the crisis in financial aid had not yet mushroomed to an extent that vast exceeds the resources, financial and moral, of most conscientious parents and the hardest-working students.

Senators Simon and Durenberger have made a major contribution to the development of a sound policy with regard to Federal financial aid to students in higher education by their amendment. I understand that the system requires not one more round of adjustments and funding increases, but a major renovation. IDEA provides a vehicle for that renovation.

Thank you.

[The prepared statement of Mr. Silber (with attachments) follows:]

## Prepared Statement of Mr. Silber

Mr. Chairman, Senator Kassebaum, members of the subcommittee. I am grateful for the privilege of testifying today.

The proposed amendments to Title II contain, in the Income-Dependent Education Assistance Credit (IDEA), a proposal that is not merely a step, but several steps in the right direction towards a rational system of financial aid that will remove the last barriers that deny high education to the young people of America, and do so in a fashion that will relieve their parents and the taxpayer of a heavy burden.

IDEA embodies several crucial principles which, if enacted, will bring a new realism, effectiveness and reduced opportunity cost to federal efforts for financial aid.

One of these is that aid under IDEA is available to all qualified students without regard to the financial situation of their own families. At present there is no reliable way of determining the accuracy of claims of financial independence made by students. Rather than assessing need through a bureaucracy that is cumbrous, expensive and not very accurate, IDEA treats students in their own terms rather than as children of their parents. Judged in their own terms, of course, most students are indigent or nearly so. But they graduate from college with immensely increased earning power, well able, over time, to repay the price of their education. IDEA shifts a heavy burden from the shoulders of parents and lays a far lighter one on the shoulders of students.

By dispensing with traditional concepts of needs assessment, IDEA removes a heavy administrative burden from institutions of higher education and the federal government. This is increasingly a needless burden: for a the price of tuition rises, an increasingly large proportion of all students have need, and now have massive need.

Another key principle embodied in IDEA is repayment through payroll withholding under the watchful eye of the Internal Revenue service. At a stroke, repayment of loans under IDEA is guaranteed so long as graduates have income. With the IRS involved, there will be no default through bankruptcy and only three ways to evade repayment: death, disability, or Leavenworth. None of these is especially attractive.

And thus another massive administrative burden would be lifted: that of locating and pursing delinquent graduates. The cost to the government would be minimal: that of adding a new box to the W-4 form and transferring funds from one account at the Treasury to another. We already have the model in the form of the arrangements used to collect social security taxes and voluntary political contributions.

The third important principle embodied in IDEA is income-contingent repayment. This takes into account the fact that graduates will attain differing levels of financial success. There is no reason why young investment bankers would not repay quickly. But graduates working for non-profit organizations and doing work at least as valuable to society (as investment banking) will be unable to pay at the same rate, and, if they have pursued expensive educations and unremunerative careers—doctors working in inner-city clinics, for example—may be forced into bankruptcy no matter how hard they work or how responsibly they budget their income.

Under IDEA there is no reason why the federal government should not serve as the lender, rather than transferring this function, at a substantial cost, to banks. With IRS collection, IDEA loans are a sure thing for the lender, obviating most of the service functions provided by banks. There is no reason for banks to be provided with premiums to administer a risk-free program which the government can administer more cheaply and without any additional risk.

Mr. Chairman, in 1978 Senator Kennedy and others introduced legislation to enact another proposal along lines similar to IDEA. This grew out of a proposal I had made the year before, the Tuition Advance Fund (TAF), an income-dependent program in which repayments were to be made through the IRS.

Besides many similarities, IDEA and TAF have many differences. I shall not dwell on these here. I do see, however, one serious problem with IDEA> Interest accrues while students are still in college. This accrual to principal, combined with an interest rate of T-Bill+2, will ensure that many graduates will experience negative amortization: even after they begin repayment their loan balance will increase rather than decline. I believe that any workable program will need to address this difficulty in some way, perhaps by cross-subsidies between richer and poorer students, as is the case with H.R. 2336. Or the government could forego its 2 percent premium on the T-Bill rate. It is prepared to borrow money at the T-Bill rate. Why should it not lend at the same rate? For these loans are an investment in our most precious national resource: human intelligence.

TAF was, I believe, a good idea. I believe it still is. Its time had not come because in 1978 the crisis in financial aid had not yet mushroomed to an extent that vastly exceeds the resources, financial and moral, of the most conscientious parents and hardest-working students.

Senators Simon and Durenberger have made a major contribution to the development of sound policy with regard to federal financial aid for students in higher education. They understand that the system requires not one more round of adjustments and funding increases but a major renovation.

IDEA provides a vehicle for that renovation.

# THE TUITION ADVANCE FUND

Testimony of John R. Silber, President, Boston University
before the National Commission on Student Financial Assistance
Washington, DC, April 25, 1983

In recent years Americans have become increasingly aware of the need to build up the nation's physical and financial capital. Through the efforts of the Reagan administration, the national debate on this issue has in large part shifted from the question of whether capital needs to be developed and maintained to the question of how best to do so.

We have not yet adequately recognized, however, that there is a third kind of capital -- intellectual capital -- which is as important as the other two kinds. In fact the development of physical and financial capital depends upon it. Intellectual capital is fundamental to the wealth of nations in a way that physical capital is not. This can be seen in the example of Japan, a nation with next to nothing in natural resources, a country that is deficient even in arable land. By substituting intellectual capital for physical capital -- substituting trained intelligence and its products for natural resources -- Japan has built the third greatest economy in the world.

I emphasize the importance of trained intelligence, for in the Third World there are many desperately poor countries that are far richer in resources than Japan and whose people are on the average as intelligent. But these countries fail to convert the raw material of native intelligence into intellectual capital through education, and in consequence they languish in poverty and political oppression -- which are the harvest of ignorance. Japan, through its intense and pervasive programs of education, flourishes in prosperity and freedom, providing a spectacular example of the manner in which education can be liberating both to individuals and societies.

To a large extent, of course, the same could be said of the United States, where much lip service and a great deal of money are paid to education. But more and more the provision of money is coming to be as ineffective as the lip service. This problem is not peculiar to higher education. There is, for example, widespread consensus that our elementary and secondary schools are failing in their basic tasks, a failure reflected in the decade-long decline in SAT scores no less than in our national plague of functional illiteracy.

In higher education, we are facing disaster. A period of violent inflation has driven the cost of higher education up sharply. It has been followed by a period of demographic decline, which is sharply reducing the pool of students to be educated. The combined result is a substantial increase in the unit cost of higher education well beyond the increase driven by inflation alone. If we try to muddle through, widespread bankruptcy among the institutions of the independent sector and a dangerous and extremely expensive force-feeding of those in the state sector will follow. The states will gain a virtual monopoly on higher education; diversity in higher education and the taxpayer's pocketbook will be the casualties.

Our stock of intellectual capital will grow less rapidly than it might, and we will continue the unconscionable waste of capital entailed in the under-education and mis-education of the poor and the minorities.

It is against this prospect, no less than against the background of widely recognized deficiencies in the present system of federal financial aid, that I come before the Commission today.

We are faced with two imperatives: ensuring that no young American will be denied access to higher education because of his inability to pay for college at the time of his attendance, and maximizing the extent to which he eventually pays for the educational benefit he received as a student. The existing system of federally-guaranteed loans recognizes that students can and should pay for much of the cost of their higher education. But it is flawed by failing to guarantee repayment and by charging interest rates that now impose interest costs that mount up to a sum frequently exceeding the original loan within seven years. Such loans are confiscatory in effect and usurious by historical standards that were accepted as recently as ten years ago. They are inducements to default and bankruptcy.

The provision of access to higher education is crucial to intellectual capital formation: whatever intellectual capital has been developed in our high school seniors is scattered among them without regard to the financial status of their parents. While it is true that the children of the affluent will, as a group, have had access to superior elementary and secondary education, and more parental encouragement at home than the children of the poor, who will, as a group, have been short-changed to varying degrees in all these areas, the brightest and most promising students will appear in all social and economic groups. Any system of higher education which allocates superior education in terms of parental income alone will, therefore, in addition to committing a grave injustice, waste intellectual capital built up at great cost earlier in the educational process.

The ideal system of financing higher education would, therefore, make family income as nearly irrelevant as possible to the attainment of higher education, while requiring those who have been educated to contribute a major portion of the cost of their education.

To meet those two key objectives I have proposed a comprehensive system of federal funding for higher education which would provide educational opportunity -- both in access and in choice -- more equally and more extensively than anything dreamed of by the Democrats and which will increase the responsibility for self-reliance and, within a few years, reduce the federal role in higher education more drastically than anything proposed by the Republicans. This systematic, comprehensive plan for the financing of higher education I have called the Tuition Advance Fund (TAF).

Under TAF, any undergraduate degree-candidate in an accredited institution could be advanced money to pay for tuition, to a limit of perhaps $7,000 a year for four years. After graduation, students would repay through a new payroll withholding tax, administered by the IRS, on a sliding scale that might reach 6% of gross income at maximum. There would be no repayment on incomes below a certain level -- perhaps $10,000 a year. This repayment would continue until one-and-a-half times the original had been repaid. This excess of repayment over advance would insure the Fund against the unemployment and early death of some of those who had gotten advances. Repayment of one-and-one-half times the advance would still be a bargain for the recipient, for the financial benefit that proceeds from having attended college will, on the average, exceed the total repayment obligation by twenty-five times. In 1977 the Bureau of the Census estimated that the average college graduate earned over a lifetime $232,000 more than the average high school graduate. That is approximately $375,000 in 1982 dollars. The maximum TAF repayment obligation -- advance plus surcharge -- would be about 12% of this amount. The average TAF repayment obligation would be no more than 4%.

In fifteen to twenty years, repayments to the Fund and its investment income would reach a level sufficient to meet future claims against it. The Fund would then become self-supporting and constitute a vast national endowment for the education of college and university students. In ten to twenty years more, every cent originally appropriated to the Fund out of tax revenues could be returned to the federal government! This would be a national first.

The administration of the program would be simplicity itself. A student admitted to degree candidacy at an accredited college or university would be issued an account under his social security number. He would pay his tuition -- or most of it -- simply by presenting his account number to his bursar, who would bill the Fund. After graduation, when he was employed and filled out his W-4 form, he would check a box marked indicating that he had an outstanding obligation to the Tuition Advance Fund. His employer would then deduct from his salary at the appropriate rate and remit the TAF payment to the Treasury along with income and social security tax withholdings. Analagous procedures would cover the self-employed.

I need hardly point out the advantages of such a system to this Commission. The present system for needs assessment is complicated, cumbersome, expensive, and highly ineffective: the Department of Education has estimated that 35% of the parental income statements contain some element of deception or fraud. There is also a serious problem caused by the existence of the bogus "independent" student, who says "Yes, my father does make $200,000 a year, but that's not relevant to my situation; he has cut me off without a penny." Sometimes such claims are true, and should be taken into consideration by an equitable system of financial aid; usually, however, they are false, made merely to get around an inconvenient income ceiling. There is no evidence, for example, of a wave of disinheritance sweeping Fairfield County, Connecticut. Even when there is no element of fraud, a thoroughly equitable system of financial aid would require an invasion of family and individual privacy that no university and no office of education is qualified to make, or could make under the Constitution.

TAF solves these problems by a dramatic revision of the concept of need: it deals with the student as an individual, rather than as a member of a family.

The great majority of students, taken as individuals, are close to indigency. Their need as students is roughly equal to their educational expenses. It makes much better sense to consider them all as paupers for the moment and then exact repayment at a rate automatically indexed to their individual prosperity in later life.

But even if we consider them as members of a family, the fact is that 95% of the families in America need some help to see one child through college and substantial help to see more than one through college at the same time. 5% of the families do not. Should we deny a rational system of aid to the 95% simply because it may benefit the 5%?

In a parallel case, that of the public highways, we decided to dispense with a needs test. We do not ask for a 1040 form from someone who wants to drive on an Interstate highway because we recognize that relatively few people can afford helicopters or their own private roads. Similar principles ought to cover the provision of guaranteed-repayment advances for college tuition.

The Tuition Advance Fund likewise offers major advantages in collection. The present system is no better at collection than at needs assessment.

Default on Guaranteed Student Loans has been running about 12% across the board and above 25% in some institutions; the government has already paid $1.7 billion in defaulted loans, a sum which is about a third of the 1980 national loss from theft of all sorts, about two-thirds the loss from burglary, nearly equal to the loss from larceny, five times the loss from armed robbery. This is a scandal. At least as important as the financial cost of the default is the moral cost, as hundreds of thousands of young people are encouraged or at least permitted to begin adult life with a massive renunciation of responsibility in which bankruptcy and default become a secular rite of passage.

The Tuition Advance Fund would solve this problem at a stroke: collections would be managed by the highly efficient methods of the Internal Revenue Service. This would leave persons having an obligation to repay with only three ways of defaulting: through unemployment; through death; and through Leavenworth. None is especially attractive. Bankruptcy would not be an option, for TAF does not establish a conventional debt, but rather an obligation to pay a special tax at specified rates until a specified total has been paid. Bankruptcy might wipe away all debts, but there would still be an obligation to continue paying the TAF tax until full repayment, retirement, or death supervened. To judge from the record of the GSL program, nothing is less sure than debt repayment; but tax payment under the IRS code continues to run death a close second for certainty.

To establish this endowment fully funded for all undergraduates would cost approximately $12 billion a year in 1982 dollars. Approximately $4.5 billion would go to students in state-supported institutions, and about $7.5 billion to students in independent institutions. Increasingly administrators of state institutions are going to face the problem of either having to increase their tuition or of having to reduce the quality of their institutions. The need for the Tuition Advance Fund is going to intensify in the state sector just as it has in the independent sector. The benefits are there for both. Approximately $5 billion of the $12 billion total could be funded from programs that TAF would replace. The remainder of $7 billion can be put into perspective by remembering that it is less than 1% of the operating budget of the federal government, and less than 1/4 of 1% of the Gross National Product.

This program would be, it should be emphasized, unlike every other federal appropriation, because it would have a clear and visible sunset ahead of it: at some point within three senatorial terms, the total of repayments into the Fund and its investment income would be equal to the advances paid out, and the Fund would no longer require tax support. Because of the complexities of such variables as inflation, it is not possible to be certain in precisely how many years the Fund would become self-sustaining. But we can say with great certainty that self-funding would be attained within fifteen to twenty years. Moreover, after a further period, the Fund would attain a surplus that would allow it to repay to the federal government all the original funding.

In this respect TAF would likewise be unique in the history of federal appropriations. In twenty years or less the program would end the federal role in financing student aid. At the same time that it provides parents and students with more generous aid to higher education than any Democrat has proposed or could hope to see enacted, the Fund provides for a higher percentage of repayment, greater individual self-reliance, and a greater reduction in federal aid to higher education than any Republican has proposed or could hope for. The Tuition Advance Fund is a perfectly responsible way of funding higher education because those who receive the educational benefit in advance will pay for it during their working lifetime through payroll deductions.

The demographics of the Tuition Advance Fund invert those of Social Security: an increasing number of repayers against a decreasing or stable number of recipients guarantees its financial integrity. It is like a college whose enrollment remains roughly constant but whose alumni increase annually.

While meeting the educational goals of the Congress, TAF would be fully consistent with Mr. Reagan's supply-side economics, for it is an investment in capital formation rather than a program of consumption.

The present federal system for financial aid was put together in patches during a period when higher education was expanding and perpetually increasing federal spending was the custom, and widely considered a desirable one. Higher education now faces a new and different reality. The pool from which it draws its students has begun to shrink, and President Reagan has massive national support to put federal spending under firm control. Higher education ought to get its house in order by supporting a comprehensive reform of federal financial aid that promises long-term reductions in federal spending.

Under the funding mechanism proposed for TAF, spending on higher education becomes investment rather than consumption. This is the high ground from which higher education can respond to inevitable budget cuts. The Tuition Advance Fund offers the potential of a guaranteed phase-out of a major part of the education budget while preserving and indeed enhancing our ability to provide higher education to every qualified student.

Until federal deficits are brought under better control, realism compels us to the conclusion that a program calling for increased spending for higher education -- even a temporary and self-cancelling increase such as TAF -- has only a limited chance for enactment. But the case for TAF can be made, even at this time, as essential to our nation's economic well-being on which our national defense ultimately depends. And when an improved economy gives the federal government some room for maneuver, the Tuition Advance Fund will be seen as the obvious solution. It will remove a heavy, almost unbearable burden from the backs of parents and place an easily manageable one on the shoulders of each student.

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Mr. KENNEDY. Mr. President, I send an amendment to the desk on behalf of myself, the Senator from New Hampshire (Mr. Durkin), and Senator from South Dakota (Mr. McGovern).

The PRESIDING OFFICER. The amendment will be stated.

The second assistant legislative clerk read as follows:

The Senator from Massachusetts (Mr. KENNEDY), for himself, Mr. DURKIN and Mr. McGOVERN, proposes unprinted amendment No. [illegible].

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "Tuition Advance Fund and Tax Credit Act".

SEC. 2. [illegible]

Title IV of the Higher Education Act of 1965 is amended by adding immediately after part C thereof the following new part:

"PART D—TAX COLLECTABLE TUITION ADVANCES TO STUDENTS IN INSTITUTIONS OF HIGHER EDUCATION

"STATEMENT OF PURPOSE AND AUTHORIZATION OF APPROPRIATIONS

"SEC. 491. (a) It is the purpose of this part to [illegible]

year shall be ratably reduced. In case additional funds become available for making such advances for any fiscal year during which the preceding sentence is applicable, such reduced amounts shall be increased on the same basis as they were reduced.

"ELIGIBILITY OF STUDENT BORROWERS AND TERMS OF OBLIGATIONS

"SEC. 492. (a) An advance shall be made by the Commissioner under the provisions of this part only to a student—

"(1) who has not successfully completed a program of undergraduate education and is thirty-five years of age or younger;

[illegible]

the Commissioner until the earlier of (A) the beginning of the calendar year in which such borrower will become sixty-five years of age, or (B) the date on which the total principal amount of advances made to the borrower, plus an amount equal to 50 per centum of the total of such advances, is paid in full.

"(c) For purposes of subsection (b), the term 'allowable tuition and expenses' means—

"(1) the tuition charged by the eligible institution at which the borrower is enrolled, plus

"(2) an amount determined, in accordance with regulations prescribed by the Secretary, as necessary to cover education-related expenses such as transportation, room, board, and materials, but not exceeding [illegible].

"COLLECTION PROCEDURES

"SEC. 493. (a) The Commissioner shall, not later than January 1 of each year, certify to the Secretary of the Treasury [illegible]

[illegible]

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which this section is enacted (hereafter referred to as the 'base tuition') plus an amount equal to the sum of—

"(A) such base tuition adjusted by the inflation adjustment factors determined under paragraph (3), plus

"(B) in the case of eligible public institutions, an amount not to exceed 10 per centum of such base tuition.

For purposes of applying subparagraph (B), no additional amount of tuition at any eligible public institution shall be taken into account unless the Commissioner determines that such additional amount is available to such institution to carry out its educational purposes.

"(3) The Commissioner shall prescribe a schedule for the calculation of inflation adjustment factors for purposes of paragraph (1) for each academic year beginning after enactment of this section which shall be based upon the increase in the Consumer Price Index as determined by the Secretary of Commerce for the calendar year preceding the calendar year in which such academic year ends."

SEC. 3. REPAYMENT

(a) IN GENERAL.—Part I of subchapter A of chapter 1 of the Internal Revenue Code of 1954 (relating to tax on individuals) is amended by redesignating section 5 as section 6 and by inserting after section 4 the following new section:

"SEC. 5. TAX IMPOSED FOR REPAYMENT OF FEDERAL TUITION ADVANCES.

"(a) IMPOSITION OF TAX.—In addition to the other taxes imposed by this chapter, there is hereby imposed on the includible adjusted gross income of every Federal tuition advance recipient in repayment status for the taxable year a tax equal to the lesser of—

"(1) the amount equal to the applicable percentage of such includible adjusted gross income, or

"(2) the sum of the aggregate amount payable on all Federal tuition advances of such recipient plus an amount equal to 50 per centum of such aggregate amount payable.

For purposes of paragraph (2) the aggregate amount payable on any such advance shall be determined as of the last day prescribed by law for filing the return of tax imposed by this chapter for the taxable year.

"(b) Applicable Percentage.—For purposes of subsection (a), the applicable percentage with respect to any Federal tuition advance recipient in repayment status shall be determined in accordance with the following table:

[In percent]

| | Annual income of recipient | | | | | |
|---|---|---|---|---|---|---|
| | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Total tuition advance fund obligation: | | | | | | |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

"(c) DEFINITIONS.—For purposes of this section—

"(1) Tuition advance.—The term 'tuition advance' means any advance made pursuant to part D of title IV of the Higher Education Act of 1965.

"(2) Tuition advance recipient in repayment status.—The term 'tuition advance recipient in repayment status' means for any taxable year any individual from whom a certification has been received by the Secretary pursuant to section [illegible] of the Higher Education Act of 1965 and has not been withdrawn pursuant to section [illegible] of such Act.

"(3) Includible adjusted gross income.—The term 'includible adjusted gross income' means—

"(A) in the case of a single individual, the adjusted gross income of such individual,

"(B) in the case of married individuals filing a joint return under section 6013, where both spouses are tuition advance recipients, an amount equal to the adjusted gross income of such individuals,

"(C) in the case of a married individual filing a separate return, or a married individual filing a joint return under section 6013 where the spouse of such individual is not a tuition advance recipient, the greater of—

"(i) the adjusted gross income of such individual, or

"(ii) an amount equal to one-half of the sum of the adjusted gross income of such individual and such individual's spouse.

"(d) SPECIAL RULES.—

"(1) TAX TREATED AS INCOME TAX.—For purposes of this title, the tax imposed by subsection (a) shall be treated, under regulations prescribed by the Secretary, as an income tax imposed by this chapter.

"(2) MARITAL STATUS.—For purposes of this section, marital status shall be determined under section 143.

"(3) CERTIFICATION BY SECRETARY OF ADVANCE AMOUNT REPAID.—The Secretary shall certify to the Commissioner of Education the amount of tax paid under subsection (a) for the taxable year with respect to each tuition advance recipient in repayment status."

(b) (1) CONFORMING AMENDMENTS.—The table of sections for such part I is amended by striking out the item relating to section 5 and inserting in lieu thereof the following:

"Sec. 5. Tax imposed for repayment of Federal tuition advances.

"Sec. 6. Cross references relating to tax on individuals."

(2) Subsection (a) of section 6012 of such Code (relating to persons required to make returns of income) is amended by striking out "and" at the end of paragraph (6), by striking out the period at the end of paragraph (7) and inserting in lieu thereof "; and", and by adding at the end thereof the following new paragraph:

"(8) Every individual who, at the close of the taxable year, is a Federal tuition advance recipient in repayment status (as defined in section 5(c)(2))."

(3) Subsection (a) of section 3402 of such Code (relating to income tax collected at source) is amended before the period in the third sentence by inserting "and to reflect an additional amount of tax to be deducted and withheld by reason of the tax imposed by section 5".

(c) (1) EFFECTIVE DATES.—The amendments made by subsections (a) and (b) of this section shall apply to taxable years ending on or after the first day of the first calendar year beginning after the date of the enactment of this Act.

(2) The amendment made by subsection (b)(3) shall apply to wages paid on or after the first day of the first calendar year beginning after the date of the enactment of this Act.

(d) BANKRUPTCY.—For the purpose of section 17 of the Bankruptcy Act, any tax imposed by section 5 of the Internal Revenue Code of 1954 shall be deemed to be a tax which became legally due and owing by the bankrupt to the United States within three years preceding bankruptcy.

(e) REPORT.—The Secretary of the Treasury and the Commissioner of Education shall, not later than January 15 of each year, submit to the Committee on Ways and Means of the House of Representatives and to the Committee on Finance of the Senate any recommendations for changes in the rates or methods of collection of the taxes imposed by section 5 of the Internal Revenue Code of 1954 that may be necessary to insure the continued solvency and availability of the trust fund established pursuant to section [illegible] of the Higher Education Act of 1965.

Mr. KENNEDY. Mr. President, I yield myself such time as I might need.

The PRESIDING OFFICER. The Senate will be in order.

The Senator from Massachusetts is entitled to the attention of the Senate.

Mr. CHILES. Will the Senator yield?

Mr. KENNEDY. Yes, for a unanimous consent.

Mr. CHILES. Mr. President, I ask unanimous consent that Rick Brandon and Carole Hayes of my staff be granted privilege of the floor.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. KENNEDY. Mr. President, I offer this amendment on behalf of myself, the Senator from New Hampshire, and the Senator from South Dakota. We are considering ways in which we might meet the problems of higher tuition costs. I think the tuition advance fund provides a new, creative and financially responsible way of dealing with this problem.

This proposal has not had the consideration of the Education Subcommittee, although I have talked to the chairman of the Education Subcommittee and he has given assurance that we will have the opportunity for hearings on this proposal in the next session.

Basically, Mr. President, what this amendment would do is provide for a tuition advance fund which would make enough money available to allow people to go to college and to continue in college. The tax credit is only for $250 and we know that the burdens of tuition far exceed that.

It would also provide additional resources for room and board. It would be generally available to all of those who seek higher education.

The loan would be paid back over a period of years during which the particular student that took advantage of the program is working and earning. These funds would go back into a revolving fund for use by future students.

This fund would be self-sustaining after a period of years and would no longer drain the Federal Treasury, as a tax credit program would or even as a scholarship does.

And, it puts the responsibility on the one who will benefit, the student, rather than the parent.

Mr. President, this particular concept has been placed forward by a distinguished educator in my own State, President John Silber, president of a great university, Boston University. He has given it a great deal of thought, a great deal of study.

It seems to me to be both the financially responsible and the educationally responsible approach toward meeting the extraordinary burdens of higher tuition on the young people in this country, and their families.

Mr. President, I would now like to more formally list the virtues of this proposal for my colleagues.

Mr. KENNEDY. Mr. President, first, the tuition advance fund would make enough money available to allow people to continue in college. It is difficult for students to meet the burden of tuition, room and board today. Average tuition alone in a private college is now $2,500; room and board costs $1,000 or more. The proposed tuition tax credit would return only $250 a year in tax savings to the family which was putting someone through college—and this money would be returned some 10 months after the close of the school door for the year. It is obvious that $250 10 months late is not going to make much of a difference.

Second, the tuition advance would be available to all people who are going to accredited colleges, the 980,000 in private schools and the 2.7 million in State schools. People with financial needs would not have to search through a variety of programs and hope that, in the year in which they are applying, enough money remains in the program, or that they meet that year's eligibility criteria. It is thus as comprehensive as the tax credit.

Third, the proposal recognizes that students who go through college are the primary beneficiaries of a college education. They owe something to a society which has allowed them the resources to enjoy that education. They begin to pay society for the benefit which has been extended to them through this bill. In turn, they make it possible for society to award similar funds to students who follow in their path. It is fair that they do so. Those who go to college enjoy far greater earnings over the course of their lifetime than those who do not. The bureau of the census reports a $238,000 difference between the wages of a college and a high school graduate. They enjoy the other benefits that education bestows. They should be paying for that education when they can afford to do so, to help those who subsequently need assistance.

Fourth, the bill promotes societal values through a payback scheme which does not force people into taking jobs purely because those jobs offer higher salaries. Those people who wish to take lower paying jobs which might be of service to society—those people who want to enter VISTA after their graduation, or those who cannot find higher paying jobs would only pay a flat percentage of their salary that year, rather than an amount calculated purely on the basis of the amount that they borrowed. This compares to the present system where, like a home mortgage, people must pay back their loans in a certain period regardless of their incomes. Gearing payback rates to income will also probably lead to fewer outright defaults.

Fifth, the program would eventually be self-sustaining. During the first few years, we would have to spend more money on the educational loans than we now do. But within a few years college graduates would begin paying back loans. As compared to the social security system, the tuition system would result, over the next few decades, in a larger and larger proportion of people graduating and paying back the amount they borrowed as they moved into jobs. There are always far more people in the work force, who are there for a 40-year period, than in college, where they are eligible for a tuition advance for a 3-year period.

Mr. President, the tuition advance fund is simply a better way to insure a college education to all the people in America who want one. It is simply a fairer way of allocating the cost of guaranteeing a college education.

I hope we will be able to test out these thoughts in the Education Committee and come back and make a recommendation to the Senate.

● Mr. DURKIN. Mr. President, our amendment strikes those portions of the tuition tax credit bill dealing with tax credits to parents paying tuition to colleges and universities. In place of those provisions, my amendment substitutes an alternative college financing plan.

There is little doubt that a $250 tax credit would be welcomed by any person struggling to meet the high costs of tuition. But that $250 which comes in the spring will be of cold comfort when a $3,000 tuition bill arrives in the fall. For this reason, I am offering an amendment which establishes a program covering up to $8,000 of tuition and related expenses while placing responsibility for repayment where it belongs—squarely on the shoulders of the person who benefits from that education, the student. Repayment will be made over the borrower's working lifetime.

My amendment, which is cosponsored by the Senator from Massachusetts, Mr. KENNEDY and the Senator from South Dakota, Mr. McGOVERN, is identical to the Tuition Advance Fund Act which I introduced earlier this year. Similar legislation has been introduced in the House by Congressman HARRINGTON, who helped develop the plan along with President John Silber of Boston University.

There is no question that a comprehensive program is needed now if a college education is to be a realistic goal for those who are not wealthy.

The cost of sending a child to college has risen by more than 77 percent in the last 10 years. The average cost of tuition, room, and board at a nonpublic institution of higher education is more than $18,000 over 4 years, and still rising. The costs at taxpayer supported colleges have also risen considerably to the point where it now costs an average of $2,500 per year to cover education expenses for students at these schools.

Federal loan and grant programs have been a partial solution to the problem of rising costs but have not been enough to place a college education within reach of all who wish to attend. The primary Federal program to assist middle-class students, the guaranteed student loan program, has been of considerable help, but has not been a universal answer. Some lenders have been unwilling to make such loans at all or have set aside an insufficient amount to meet the needs of all those wishing to borrow. Other Federal student assistance programs are not available to middle class because their incomes are supposedly too high. For instance, 94 percent of all basic education opportunity grants go to persons with family incomes under $15,000. We all know that the financial burden on families with incomes over this level is great, too great, and as a result they may not be able to offer their children the opportunity of a higher education.

Our proposal authorizes the commissioner of education to make advances of funds to students to cover the costs of tuition and certain other related expenses such as room and board up to a limit of $2,000 annually. The loans would be made to undergraduates in their sophomore, junior, or senior years, that is, to students who have made a commitment to their education. Also, to be eligible for an advance, the student must be in attendance on at least a half-time basis at an eligible institution. An eligible institution is one which has allowed only reasonable increases in its charges to students.

The repayment method contained in our amendment is also simple and will avoid the problem of defaults found with current student loan programs. Recipients will repay the money advanced to them during their working lifetime through the Federal income tax system. The student will begin payments once he or she ceases to be in school on at least a half-time basis and will continue until the amount borrowed plus a 50-percent surcharge has been repaid or until the recipient reaches age 65.

The funds will be withheld from the advance recipient's salary as a tax, and, as such, are not avoidable by declaring bankruptcy. The abuses which exist under the present student loan programs would not be possible.

Two other aspects of the proposed repayment plan are important to note. First, students with an annual income of less than $6,000 during their repayment period will not be taxed during the years their income is below that level. Second, married individuals with a tuition advance obligation will repay 2 percent annually on the greater of (A) his or her individual earnings or (B) half of the combined income of both spouses.

Mr. President, we are fond of saying that education has made this country great, and that human capital is our most important asset. It is time we backed rhetoric with action. This plan recognizes that an investment in education is an investment in human capital. Just as the Federal Government subsidizes other capital investments through tax credits and other incentives, so should we recognize investments in human capital. Just as we amortize our other capital investments, so should we allow the amortization of human capital investments, that is, investments in education.

The system provided for in our amendment will give all students a chance to pursue higher education, a chance to invest in their future. I urge its consideration by the Senate.●

Mr. BELLMON. Will the Senator yield?

Mr. KENNEDY. Yes, I yield such time as the Senator from Oklahoma wants.

Mr. BELLMON. I thank the distinguished Senator from Massachusetts for yielding.

Mr. President, I want to begin by saying that I agree with the position the Senator has taken favoring student loans.

On last Friday, I introduced a National Student Loan Bank Act (S. 3409) bill intended to provide source of funds to young people whose families cannot or will not furnish needed support.

It is a loan program. It is not grants. The loans are to be fully repaid at the cost of interest to the Treasury.

I agree with Senators DURKIN and KENNEDY that affordable loans are the answer to the cash crunch problem confronted by middle-income families, particularly if their children want to attend high cost private schools or colleges.

S. 3409, the National Student Loan Bank Act is different from the Durkin-Kennedy plan in both its repayment requirements and its structure.

Mr. President, this matter is of great import, both from a budgetary and a humanitarian standpoint, because it does offer the students what they might have at a minimal cost to the Treasury.

I hope we could have hearings on both the Kennedy-Durkin bill and on S. 3409.

I think we can learn a lesson from our experience this week. The Senate has had under consideration two bills—the tax credit now on the floor and the President's proposed expansion of the basic education opportunity grant program, which we will soon consider. It is plain that a more orderly, more workable, more inclusive system of student aid is needed.

I join Senators DURKIN and KENNEDY in calling for hearings, hopefully one set of hearings which will address both their bill and S. 3409.

I hope hearings could occur early next year, so the product of such hearings can be considered in conjunction with the reauthorization of all existing higher education programs, which is due to occur next year.

Mr. President, I believe that this is the first step toward a reasonable, comprehensive, affordable program for student loans which will offer a solution to the problems of students from middle-income families when they attempt to seek higher education.

Mr. KENNEDY. I just want to express my appreciation to the Senator from Oklahoma for his suggestions.

We are approaching this in a similar way by a revolving loan fund with a payback provision. It seems to me to be sound educational policy as well as financial policy.

I want to give assurance to the Senator from Oklahoma as a member of the Education Committee that we will certainly consider his approach to it with Senator DURKIN's, Senator McGOVERN's and mine.

I yield to the Senator from Rhode Island.

Mr. PELL. Mr. President, I congratulate the Senator from Massachusetts for bringing up this matter for discussion. I know it is a very interesting approach and a very novel and sensible one.

I have had several conversations—at least one long one—with President Silber, of Boston University, and think the idea has a great deal of merit.

I look forward in the coming session of Congress—if it does not pass this session, it may pass in the next session, although I make no commitments in that regard—but I am looking forward to a hearing and a discussion on it in our Education Subcommittee.

Mr. KENNEDY. I thank the Senator.

Mr. President, I withdraw my amendment.

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Senator PELL. Thank you, Dr. Silber.

Mr. Wenc.

Mr. WENC. Mr. Chairman, members of the committee, my name is Leonard M. Wenc. I am beginning my 21st year as director of student financial services at Carleton College in Northfield, MN.

It is my intent to speak to you on the subject of direct lending as contained in the IDEA credit proposal submitted by Senators Simon and Durenberger.

My tenure as a financial aid administrator began in 1965 with the implementation of the Higher Education Act in 1965. I would be remiss if I did not recognize the important role of Congress in making available programs of student assistance that have now grown well beyond their modest beginning and which now play a pivotal role in meeting our public policy goals.

What has now become abundantly clear is that our largest Federal student loan program is in need of review. What we now have is a window of opportunity which will allow the student loan programs now in place to be seriously scrutinized with the possibility of substantial changes in what has become the major student aid program currently available to students. This window of opportunity was brought to my attention during the time that I served as an intern in Representative Tim Penny's office this past winter.

The concept of a direct loan program as raised by the current administration offered what I believe to be a unique opportunity to address what many believe to be a serious problem in the guaranteed student loan program.

My concern was further raised by the demise of the Higher Education Assistance Foundation in my own State.

I am now concerned that the fragile equilibrium necessary for any further continuation of this program is under severe strain.

Students—not lenders, not guarantee agencies, not secondary markets—are and should remain our primary concern. However, it became apparent that confidence in the credibility of the guaranteed student loan program was severely shaken and its future clouded by reports such as those by Senator Nunn's committee.

It became obvious to me that the reauthorization process would be an appropriate vehicle to examine options to the current system of student lending and the financing of alternative loan options. I am pleased to recognize that both the Senate and the House now have an opportunity to assess such proposals which offer both challenges and opportunities.

After careful consideration, I am now convinced that a major change involving the opportunities provided by replacing the current guaranteed student loan program with the IDEA credit proposal introduced by Senators Simon and Durenberger warrants serious consideration by all of us who recognize the need for major change.

Let me summarize my observations on this subject by making the following three points. One, the complexity and the number of players involved in the current program cries out for reform. Incremental change will simply not work. The facts dictate that the time for major change is at hand. Courage and leadership must not be found wanting if indeed public support for student aid is to be continued.

Any new program must recognize that students are both the consumer and the product of the education they receive. Administrative convenience of institutions is a factor but not the only factor in contemplating new alternatives. I am convinced that institutions who administer a direct loan program in the form of the Perkins loan program already have the necessary expertise in place to successfully administer a larger direct loan program.

Second, the guaranteed student loan program now serves low-income students in a way all out of proportion from its original intent. This results in the students with the greatest need being intimidated by a complex delivery system. Direct funding as proposed by Senators Simon and Durenberger would put the subsidy where it should be, namely, at the end of the payout years. This approach is different from the current one, which offers subsidies at the front end of the process and without allowing the beneficiaries of the education an opportunity to repay without the need for a subsidy.

The trade-off of eliminating the in-school subsidy of interest will allow substantial savings which can be used to bolster the funding of the Pell grant program for those students who are most needy. It should also be understood that the elimination of origination and guarantor fees now assumed to average 6.6 percent will allow a student who borrows $10,000 over 4 years to have $660 extra to apply toward educational expenses. In addition, income-sensitive repayment via IRS systems will contribute to the integrity of the program.

The current environment in which Congress and higher education find themselves in has changed dramatically since the implementation of the Higher Education Act of 1965. Your leadership and courage in addressing these changes should dictate a serious consideration of direct lending as a viable option for inclusion in the final reauthorization legislation.

Someone once said that when the future arrives, it will be met by two kinds of people—those who have helped shape it and those who have to adjust to it. It is my hope that all of us will be in the former group.

Please accept my deep appreciation for allowing me to appear before you today to discuss this most important matter.

[The prepared statement of Mr. Wenc follows:]

## Prepared Statement of Mr. Werc

Mr. Chairman, members of the committee, my name is Leonard M. Wenc. I am beginning my 21st year as Director of Student Financial Aid Services at Carleton College in Northfield, Minnesota.

It is my intent to speak to you on the subject of direct lending as contained in S. 1845, the IDEA Credit proposal submitted by Senators Simon and Durenberger.

My tenure as a student financial aid administrator began in 1965 with the implementation of the Higher Education Act of 1965.

I would be remiss if I did not recognize the important role of Congress in making available programs of student assistance that have now grown well beyond their modest beginnings and now play a pivotal role in meeting our public policy goals.

What has now become abundantly clear is that our largest federal student loan program is in need of review. What we now have is a "window of opportunity" which will allow the student loan programs now in place to be seriously scrutinized with the possibility of substantial changes in what has become the major student aid program currently available to students.

This "window of opportunity" was brought to my attention at the time that I served as an intern in Representative Tim Penny's office this past winter. The concept of a direct loan program as raised by the current administration, offered what I believed to be a unique opportunity to address what many believed to be more serious problems in the Guaranteed Student Loan program. My concern was further raised by the demise of the Higher Education Assistance Foundation (HEAF) in my own state. I am now concerned that the fragile equilibrium necessary for any further continuation of this program is under severe strain.

Students—not lenders, guarantee agencies, or secondary markets—are and should remain our primary concern. However, it became apparent that confidence in the credibility of the Guaranteed Student Loan program was severely shaken and its future clouded by reports such as those by Senator Nunn's committee.

It became obvious to me that the reauthorization process would be an appropriate vehicle to examine options to the current system of student lending and the financing of alternative loan options. I am pleased to recognize that both the Senate and the House now have an opportunity to assess such proposals which offer both challenges and opportunities.

After careful consideration I am now convinced that a major change involving the opportunities provided by replacing the current Guaranteed Student Loan program with the IDEA Credit proposal introduced by Senator Simon and Durenberger warrants serious consideration by all of us who recognize the need for change.

Let me summarize my observations on this subject by making the following three points:

(1) The complexity and the number of players involved in the current program cries out for reform. Incremental change will simply not work. The facts dictate that the time for major change is at hand. Courage and leadership must not be found wanting if indeed public support for student aid is to be continued. Any new program must recognize that students are both the consumer and the product of the education they receive. Administrative convenience of institutions is a factor but not the only factor in contemplating new alternatives. I am convinced that institutions who administer a direct loan program is the form of the Perkins Loan program, already have the necessary expertise in place to successfully administer a larger direct loan program.

(2) The Guaranteed Student Loan program now serves low-income students in a way all out of proportion from its original intent. This results in these students with the greatest need being intimidated by a complex delivery system. Direct funding as proposed by Senators Simon and Durenberger would put the subsidy where it should be, namely at the end of the payout years. This approach is different from the current one which offers subsidies at the front end and without allowing the beneficiaries of the education an opportunity to repay without the need for a subsidy.

(3) The trade-off of eliminating the in-school subsidy of interest will allow substantial savings which can be used to bolster the funding of the Pell Grant program for those students who are most needy. It should also be understood that the elimination of origination and guarantor fee now assumed to average 6.6% will allow a student who borrows $10,000 over four years to have $660 extra to apply toward educational expenses. In addition income sensitive repayment via the I.R.S. system will contribute to the integrity of the program.

The current environment which Congress and higher education find themselves in has changed dramatically since the implementation of the Higher Education Act of 1965. Your leadership and courage in addressing these changes should dictate a serious consideration of direct lending as a viable option for inclusion in the final reauthorization legislation.

Someone once said that when the future arrives it will be met by two kinds of people, those who have helped shape it and those who have to adjust to it. It is my hope that all of us will be in the former group.

Please accept my deep appreciation for allowing me to appear before you today to discuss this most important matter.

Senator Pell. Thank you very much.

Now we'll hear from Mr. Bronson.

Mr. Bronson. Good afternoon. I am Oswald P. Bronson, Sr., president of Bethune Cookman College in Daytona Beach, FL. I am also chairman of the Council of Presidents for the United Negro College Fund and chairman of the board of directors for the National Association for Equal Opportunity in Higher Education, known as NAFEO.

I am pleased to appear today on behalf of the 41 member presidents of the United Negro College Fund and the almost 50,000 students who attend our institutions, 117 colleges and universities of NAFEO, and nearly 300,000 students.

Fully 90 percent of our students receive some form of Federal student assistance, and today I must tell you that 21,000, or 51 percent, of all UNCF students receive Stafford or guaranteed student loans. This represents a marked increase in student borrowing and one we believe must change from the situation just 10 years ago.

In 1982-83, about 11,000 UNCF students were Stafford loan borrowers, while in 1991-92, almost 22,000 are borrowers in this program. I would suspect the same represents the public sector as well.

As an appendix to my testimony, I have provided a graphic illustration of the dramatic shift of Federal Student Aid funds received by UNCF students from grants to loans.

It is that dramatic shift from grants to loans and the proposal by a longstanding friend of the Nation's historically black colleges and universities, Senator Paul Simon, that brings me here today. I came to speak to our friend Paul Simon and to other members of the committee to urge caution in your consideration of the Simon-Durenberger proposal and to ask each of you to pause before taking any action on S. 1845.

The process of reauthorization of the Higher Education Act began almost 1 year ago. The Senate is at a critical decisionmaking stage in that process, and the House committee has completed action on its version of this critical legislation. We ask at this late date in the process to wait and consider Simon-Durenberger.

I am afraid that millions of low and middle-income students at UNCF colleges and NAFEO students can't wait, nor can they afford to place their hopes for the opportunity of a college education on this IDEA.

Let me explain. IDEA as proposed in S. 1845 is another form of direct lending. As such, it will require colleges and universities to assume and perform tasks they do not now perform in the lending process.

Among the new tasks the institution will be required to perform are those related to originating loans, six of which were identified by GAO in its report: forecasting loan volume; requesting cash advances from the Department of Education; receiving and managing Federal loan funds; providing promissory note and disclosure statements to student borrowers; securing student signatures on promissory notes, and transferring promissory notes to the loan servicer.

The Credit Reform Act of 1990 imposes complex information requirements on lenders that provide guaranteed student loans. The Credit Reform Act requires lenders and guarantors to provide hundreds of different data elements to the Department of Education regarding their student loan portfolios. That burden would now have to be borne by the institutions should they become the direct lenders.

Default reduction remedies, including delayed disbursement, collection of references, driver's license information and other borrower information data collection requirements will now fall squarely on the shoulders of institutions, since the lenders and guarantors will no longer be players in the program.

Institutions of higher education will also be subject to increased internal auditing as well as scrutiny and recordkeeping by the Department of Education. This is as it should be if institutions are going to become responsible for administering, in the case of Bethune-Cookman College, over $4 million in GSLs, supplemental and PLUS loans for 1,573 of our 2,100 students.

What we do not understand is this. Why should anyone expect untrained and understaffed student aid officers at small and medium-sized institutions to administer, error-free, a program that the lenders and guarantors seem unable to implement?

Second, if it costs the government a subsidy and a special allowance to operate the GSL program now, why should colleges and universities carry out this same task for a $20 per loan administrative fee?

Finally, Mr. Chairman, what if IDEA fails, and students get their loans late or not at all, and the entire system experiences the equivalent of a complete shutdown?

I believe that Dr. John L. Henderson, president of Wilberforce University in Ohio, summed up quite well my views and those of my fellow UNCF presidents and other colleagues in NAFEO on March 21, 1991 when, in response to a question from Senator Kassebaum on the advisability of instituting a direct lending program, he said: "I can't speak for all college or university presidents, but I certainly feel that Wilberforce University does not want to be in the lending business nor do we want to be in the debt collecting business. We are primarily educators, and whereas we are concerned about students finding assistance to enable them to pursue a college degree, a college education, I just simply don't think lending money and collecting those debts really is in the purview of an educational institution."

While UNCF is still completing a thorough analysis and institutional impact of the Simon-Durenberger bill, we do have some primary thoughts on the proposal.

Our concerns fall into two main categories. First, the propose reduction in the maximum award under S. 1845 to $3,000 when compared to the Senate subcommittee bill, $3,600, as reported to the full Labor and Human Resources Committee as an amendment to S. 1180, the Higher Education Act Amendments of 1991, and the $4,500 provided in H.R. 3553 as reported by the House Education and Labor Committee on October 23, 1991, and the $3,700 amount requested by the Bush Administration in its fiscal year 1992 education budget is, in our opinion, counterproductive.

Finally, Mr. Chairman, IDEA in our opinion exacerbates rather than solves the loan-grant imbalance problem by providing even greater opportunities for students to go into debt while going to college. Increasing annual and cumulative student loan debt limits does nothing to reduce defaults. Rather, it invites more and more students to borrow more and more money, thereby indenturing themselves to higher-paying jobs. We cannot eliminate defaults unless we assure graduation and provide full employment. We can only eliminate defaults by not making loans to educationally at-risk and very low-income students in the first place.

That concludes my formal testimony. Thank you very much.

[The prepared statement of Mr. Bronson (with an attachment) follows:]

## PREPARED STATEMENT OF MR. BRONSON

Good afternoon, I am Oswald P. Bronson, Sr., President of Bethune-Cookman College in Daytona Beach, Florida. I am also chairman of the Council of Presidents for the United Negro College Fund, and chairman of the board of directors for the National Association for Equal Opportunity in Higher Education (NAFEO). I am pleased to appear today on behalf of the 41 member presidents of the United Negro College Fund (UNCF) and the almost 50,000 students who attend our institutions. Fully ninety percent of our students receive some form of federal student assistance, and today I must tell you 21,782 or 51 percent of all UNCF students receive Stafford or Guaranteed Student Loans (GSL's). This represents a marked increase in student borrowing—and one we believe must change—from the situation just ten years ago. In 1982-83, about 11,000 UNCF students were Stafford loan borrowers, while in 1991-92 almost 22,000 are borrowers in this program.

As an appendix to my testimony, I have provided a graphic illustration of the dramatic shift of Federal Student Aid Funds received by UNCF students from grants to loans.

It is that dramatic shift from loans to grants, and the proposal offered by a long-standing friend of the Nation's historically black colleges and universities—Senator Paul Simon—that brings me here today. I came to speak to our friend Paul Simon, and to the others members of this committee, to urge caution in your consideration of the Simon-Durenberger proposal, and to ask each of you to pause before taking any action on S. 1845, the Financial Aid For All Students Act.

We at UNCF believe that caution and careful study are required because too much is at stake to act precipitously on this bill. Although the Income-Dependent Education Assistance Act (IDEA) is ten years old, the Simon-Durenberger proposal has only been placed before this committee in the last ten days. For all its warts and imperfections, I for one am not prepared to throw away a GSL program that delivers $13 billion dollars in loan capital to 4.6 million students, for an untested theory and an untried IDEA.

It is too much to ask of our institutions and our students—that we make the great leap of faith from a tired but tested horse, to a steed with much promise but no track record.

The process of reauthorization of the Higher Education Act began almost one year ago. The Senate is at a critical decision-making stage in that process and the House committee has completed action on its version of this critical legislation. We are asked at this late date in the process to wait and consider Simon-Durenberger. I am afraid that millions of low- and middle-income students at UNCF colleges can't wait, nor can they afford to place their hopes for the opportunity of a college education on this IDEA. Let me explain.

### IDEA REPRESENTS A BURDEN FOR SMALL/MEDIUM-SIZED INSTITUTIONS

IDEA, as proposed in S. 1845, is another form of direct lending. As such, it will require colleges and universities (and other title IV eligible postsecondary institutions) to assume and perform tasks they do not now perform in the lending process.

Among the new tasks that institutions will be required to perform are those related to originating loans—six of which were identified by GAO in a recent report:[1] (1) Forecasting loan volume; (2) requesting cash advances from the Department of Education; (3) receiving and managing federal loan funds; (4) providing promissory note and disclosure statements to student borrowers; (5) securing student signatures on promissory notes; and (6) transferring promissory notes to the loan servicer.

The Credit Reform Act of 1990 imposes complex information requirements on lenders that provide guaranteed student loans. The Credit Reform Act requires lenders and guarantors to provide hundreds of different data elements to the Department of Education regarding their student loan portfolios—that burden would now have to be borne by the institutions should they become the direct lenders.

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[1] "Student Loans—Direct Loans Could Save Money and Simplify Program Administration," Briefing Report to the Chairman, Subcommittee on Postsecondary Education, Committee on Education and Labor, House of Representatives, U.S. General Accounting Office (September 1991), pp. 41-42).

Default reduction remedies, including delayed disbursement, collection of references, driver's license information, and other borrower information data collection requirements will now fall squarely on the shoulders of institutions, since the lenders and guarantors will no longer be players in the program.

Institutions of higher education will also be subject to increased internal auditing, as well as scrutiny and recordkeeping by the Department of Education. This is as it should be, if institutions are going to become responsible for administering—in the case of Bethune-Cookman College—$4,572,616 in GSL's, supplemental and plus loans for 1,573 of our 2,144 students.

I am personally concerned about this attempt to impose on Bethune-Cookman College, a responsibility we do not seek, one which we are ill-prepared to undertake. And one we do not believe that we can adequately implement. We understand the desire of some large institutions to control their own lending to their students. We can also appreciate the Congress' desire to "save money" by reducing or eliminating the special allowance costs and "the in-school" interest subsidies paid to lenders.

What we do not understand is this—why would anyone expect untrained and understaffed student aid offices at small and medium-size institutions to administer "Error-Free" a program that the lenders and guarantors seem unable to implement? Second, if it costs the government a subsidy and a special allowance to operate the GSL program now, why should colleges and universities carry out the same tasks for a $20 per loan administrative fee? Finally, Mr. Chairman, what if IDEA fails, and students get their loans late or not at all and the entire system experiences the equivalent of complete shut-down?

I believe that Dr. John L. Henderson, president of Wilberforce University In Ohio, summed up quite well my views and those of my fellow UNCF presidents on March 21, 1991, when in response to a question from Senator Kassebaum on the advisability of instituting a direct lending program, he said:

"I can't speak for all college or university presidents, but I certainly feel that Wilberforce University does not want to be in the lending business nor do we want to be in the debt collecting business. We are primarily educators, and whereas we are concerned about students finding assistance to enable them to pursue a college degree, a college education, I just simply don't think lending money and collecting those debts really is in the purview of an educational institution. . . ."

While some will say that Idea won't require colleges and universities to become debt collectors because that duty is assigned to employers and the Internal Revenue Service (IRS)— I simply don't agree. As soon as the IRS and the U.S. Chamber of Commerce, the National Association of Manufacturers and the Small Business Association learn of this proposal—they will be all over Capitol Hill and the Nation's institutions of higher education will be stuck with collecting student loan debts, as well as disbursing these loans. History shows that every time a major new collecting burden is imposed on IRS—they more often than not successfully resist it. Further, even when they fail and our tax system takes on more tasks without appropriate resources, we do a worse job of collecting taxes!

## WHAT'S WRONG WITH S. 1845. THE FINANCIAL AID FOR ALL STUDENTS ACT

While UNCF staff is still completing a thorough analysis and institutional impact of the Simon-Durenberger bill, we do have some preliminary thoughts on the proposal. Our concerns fall into two main categories. First, the proposed reduction in the maximum award under S. 1845 to $3,000, when compared to the Senate subcommittee bill ($3,600) as reported to the Full Labor and Human Resources Committee as an amendment to S. 1180, the Higher Education Act Amendments of 1991; and the $4,500 provided in H.R. 3553 as reported by the House Education and Labor Committee on October 23, 1991; and the $3,700 amount requested by the Bush administration in its FY 1992 education budget[2] is unacceptable.

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[2] "The Fiscal Year 1992 Budget," Summary and Background Information, U.S. Department of Education, pp. 44–45, and see also Testimony of Michael J. Farrell, Acting Assistant Secretary for Postsecondary Education before the House Subcommittee on Postsecondary Education, "Administration Proposals for Reauthorizing the Pell Grant Program," June 4, 1991, p.3.

We know that Senator Simon—a long time advocate of a Pell grant entitlement—understands the high priority that UNCF assigns to securing a Pell grant entitlement in this reauthorization, together with a maximum award level which restores the purchasing power lost to a decade of near stagnant increases in the maximum grant, while college costs have risen significantly.

In our view, S. 1845 takes a step backward when we need to move forward! Temerity is no longer acceptable in resolving the loan grant imbalance. What is required is that the Pell grant maximum award be increased significantly—to $4,000 at a minimum—and that a Pell grant entitlement be legislated to ensure that low and middle income students are assured of access to a college education. We support S. 1845's recognition of the need to establish a Pell entitlement, but it simply does not go far enough because it limits the maximum award to $3,000. We also applaud the $1,000 excellence award, establishing in effect, a "Super Pell" grant and encouraging academic excellence among "needy" students. UNCF believes, however, that S. 1845 has the numbers exactly backwards—there should be a $1,000 increase in the Pell maximum first, then excellence should be recognized with a $600 bonus. The "need" of low and middle income students must be met first, then we should reward academic achievement.

Finally, Mr. Chairman, IDEA exacerbates rather than solves the loan-grant imbalance problem by providing even greater opportunities for students to go into debt while going to college. Increasing annual and cummulative student loan debt limits does nothing to reduce defaults. Rather it invites more and more students to borrow more and more money, thereby indenturing themselves to higher paying jobs.

What must we do to convince Congress that you must return to the basic premises underlying Federal student aid policy—grants must be provided for the lowest income students and for middle income students, and loans should be made available for those from higher income families and those attending high cost institutions.

The path we are currently on and the policy we would pursue in IDEA is littered with loan defaults.

We can only assume that higher loan limits are justified on the basis that "income-contingent" repayment will eliminate defaults. Unfortunately, the drafters of IDEA appear to misunderstand the two principal reasons why student borrowers default—lack of persistence to graduation and unemployment after graduation.

We cannot eliminate defaults unless we assure graduation and provide full employment. We can only eliminate default by not making loans to educationally "at-risk" and very low income students in the first place.

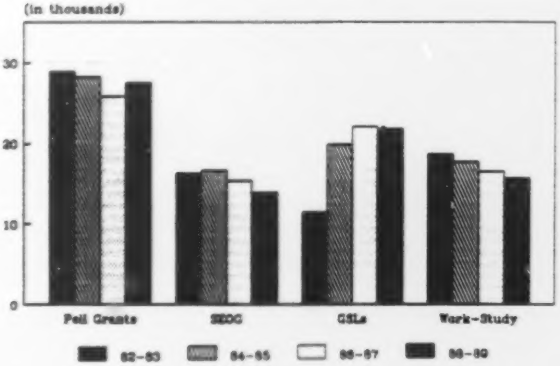
That concludes my formal testimony. I would be pleased to provide UNCF's full analysis for the record and I would be happy to respond to questions at the appropriate time.

## Trends in Student Aid

Figure 5 provides graphic illustration of the trends in participation rates in four important federal student aid programs since 1982-83: the Pell Grant program; the Guaranteed Student Loan program (now called Stafford Loans); the Supplemental Educational Opportunity Grant program; and the College Work-Study program. While the GSL (Stafford) program nearly doubled in terms of the number of UNCF student participants (11,000 to almost 22,000), the other three federal aid programs actually declined in the number of students who were served by these programs. During this period enrollments at UNCF colleges were increasing by almost ten percent.

Fig. 5. No. Of Students On Aid

Four Federal Student Aid Programs



Senator Pell. Thank you, Dr. Bronson, for being with us.

We will now hear from Ms. Jacks. I would add that there is a roll call vote going on, and very shortly we are going to have to disappear for a few minutes, but we will reappear.

Ms. Jacks.

Ms. Jacks. I thank you very much, Mr. Chairman and others, for the opportunity to speak before you today in support of the direct lending proposal. I do so—speak in support of direct lending—because I am convinced it benefits students. I think it benefits all students.

I am Kay Jacks, director of financial aid at Colorado State University. I have been in this business for about 18 years. I have worked at 4-year public institutions and, in Senator Simon's State, at Illinois State University. I have also worked at a 2-year technical school and a very small 4-year private institution.

Perhaps just a importantly, I went to school on loans, grants and work, and at one time dropped out of school because those funds were not available to me.

I enter for your in my testimony comments from others, including a student at Colorado State University who has analyzed a similar bill in the House; also, an endorsement by the Colorado Student Association of the concept of direct lending.

I was asked to speak to you on the issue of school administration and whether or not we could administer at the campus level direct lending. I also want to speak to you about the advantages to students.

Having spent 5 days in very long lines at Colorado State University in both my own office in student aid and in our treasurer's office, I became more convinced than ever that as a society, even if it meant more work for my institution—and I don't believe it will—that we have to change the method by which students receive the proceeds of their student loans.

Senator Pell. Ms. Jacks, I must ask you to desist now, because we must leave for the roll call vote. We'll be right back.

Senator Simon. And we'll be back fast; I know Dr. Silber has to grab a plane, too.

[Recess.]

Senator Simon [presiding]. The committee hearing will come back to order.

Senator Pell will be rejoining us in a few minutes, and we apologize, Ms. Jacks, to you and to the other witnesses.

Ms. Jacks. I think I was at the point where I was spending some time in the lines while we were disbursing checks to students this past fall, and what I discovered is every third to fifth student had some kind of problem. Most of those problems were fairly simple. They ranged from a student having received a recent scholarship which made them, in current terms, "overawarded"—in other words, they could not receive the loan that we had for them. Sometimes that student hadn't applied quite in a timely fashion and therefore had to wait, or there was some other delay with the check.

A very sad fact is that regardless of the reason that that student had to wait for the check, we were faced with the situation of a student who had already enrolled; that student would have to wait four to 6 weeks before he could receive the loan check—a loan check for which we had already determined them to be financially eligible, a loan check for classes which had already begun, a loan check to pay for food, rent and child care, and a loan check that they would personally have to repay.

What became obvious to be in that five-day period is that had we had a program such as direct lending, we could have solved most of those student problems within 48 hours. I knew that some of those students would not and could not remain enrolled, that they would leave Colorado State University, they would perhaps never return, and perhaps become delinquent on loans previously borrowed.

In my testimony I talk about direct lending being simpler, and I appreciate the increased availability for families, particularly middle-income families, whom I feel are feeling disenfranchised by the current process. But I'd like to focus now in the remaining moments on institutional capacity.

Quite frankly, I am more than a little insulted when I hear my colleagues from guarantee agencies, banks, and secondary markets indicate that educational institutions cannot administer a direct loan program. I believe my reality is as good as theirs. Many of these outstanding professionals have never worked in a financial aid office. All the while they analyze for us the impact upon us. They caution us against liability, cost, the inability of the U.S. Department of Education to administer the programs, that lenders will no longer assist schools during a transition, and the Congress capping the amount which is appropriated to schools to make available to students.

I'd like to talk about liability, cost, and the Department of Education. By signing a "terms of agreement" to participate in Federal programs, institutions already assume considerable responsibility and liability. We accept both of those. The liability that ensues, the responsibility is inherent in making funds available to our students who perhaps otherwise could not have it.

We assume liability for many things, for disclosures on drugs, for being certain that individuals are registered with the immigration service and with selective service. We assume considerable liability throughout this process. It is a partnership we have with Congress, the Department of Education and the taxpayers, and we should continue to have it.

Assuredly, as we take on originating loans, we have to do it properly. I think that means we give it to eligible students, and we make sure they receive that money in a timely manner. They are instructed that it must be repaid, and we tell they about other rights and responsibilities or other options available to them. We must handle those funds correctly, report on them, account for them, evaluate the success or the failure of any program we administer.

We also administer many other steps in this very complex business, and we are instructed to do it now, without a single error. We can't make a computation error in determining a student's need or a student's budget. We cannot have missing in our files a single document without being called to repay. We have to ensure that families made no error when they applied for aid. We have to confirm accurate information reporting to schools, Federal agencies, States and other parties involved. We have to make sure that our own admissions, records office, TRIO programs, athletic departments, computer systems, academic departments—you name it—are communicating with a student aid office about a variety of statuses for the student. In short, we are already liable.

I believe that the proposal for direct lending will reduce our liability. Some say that we'll have more data to report, more forms. I think we'll have fewer. However, if we had more, we are masterful at taking care of those things. We do it very, very well.

I think it will reduce administrative burden because primarily there are just fewer players; there are fewer phone calls and fewer people to deal with.

I think we will also reduce it because when we originate the loan, that will occur in a time frame while the student is still in school, and if for some reason we didn't do that properly, schools already have in place ways to encourage students to come in and visit with us if we still need to have them correct something on a form.

Cost, as outlined in a paper by Betsy Hicks from Harvard and myself—we believe that there will be fewer meaningless administrative activities associated with direct lending. I think counseling won't be limited just to loan prevention, but also to assist students in applying properly, applying early, believing that financial aid will be available for them much earlier than in the past.

The direct lending proposal—I don't believe, although I have not read this bill, and I get the House and the Senate's confused sometimes—does not call for us to become lenders ourselves or to be in the collection business unless we chose to.

As far as the Department of Education, I agree with Senator Simon. I think a former college president and a corporate executive in three or 4 years could bring up a system to make this work. I have more trust in them perhaps than others. Some of the most innovative activities that have happened in the last few years have been initiated by the Department of Education, particularly in electronic processing of student applications.

The one concern I have about any direct lending is availability of capital. I have lived in the days when black students in the City of Chicago could not get a loan because their family did not have an account with a bank. That's no longer the case, I think, in this country, and I don't want us to go back to that.

However, if I felt for a second that I was putting liquidity for students at risk, I wouldn't be here before you today. I have to trust that it is not your intention to cap this program, to limit educational credit to students. If it were, you could do it now. I believe you won't choose that course of action.

In closing, I applaud your vision, your leadership, and should anyone want to have a field test of direct lending, I'm sure Colorado State University would be willing to do that next year. I thank you very much.

[The prepared statement of Ms. Jacks follows:]

# Testimony for the Record by G. Kay Jacks, Colorado State University
# before the United States Senate
# Committee on Labor and Human Relations

I thank you for the opportunity to offer comments to you and enter into the record information regarding the benefits of several changes proposed to assist students in financing their higher education.

I am G. Kay Jacks, Director of Student Financial Aid at Colorado State University, a land grant institution of 21,000 students in Fort Collins, Colorado. Previously, I was Director at Illinois State University and at Cincinnati Technical College (a two year public school) and Thomas More College (a private school of less than 600 students). I believe my comments draw upon my 18 year experience as a practicing financial aid professional in a variety of large and small settings. I also served as the Chairman of the National Association of Student Financial Aid Administrators in 1988-89 and am currently appointed by Governor Roy Romer as a member of the Board of the Colorado Student Obligation Bond Authority (CSOBA).

Further, I first attended college in 1966 as a recipient of loans, work, grants and scholarships. In 1968 I dropped out of college because my EOG and National Defense Student Loan funds were not available when I registered and I had no money. I believe that my success as a professional in higher education finance is as a result of my broad and direct experience.

I have studied the direct lending as an alternative to the current system of educational credit for the past twelve months as part of a working group for the National Association of State Land Grant Colleges and Universities.

I have also attached for the record other papers in support of direct lending by others:

a. The National Association of Land Grant statement on direct lending.
b. Mr. Martin Wirth, junior Physics major at Colorado State University
c. A Resolution by the Colorado Student Association, representing 70,000 students in the state of Colorado.
d. A flow chart of how the direct lending might work.
e. A comparison of Administrative Functions for Schools under the Stafford Loan and a Direct Lending Program.

I applaud Senators Durenberger and Simon for their courage and leadership in developing the concept of IDEA credit, with income sensitive repayment through an existing Federal structure, the Internal Revenue Service. While most of my comments concern the front of the process, I am eager to learn more about and to analyze the income contingent repayment options proposed by Senators Simon and Durenberger.

I think it is important that we not look at the direct lending proposal in isolation. Other facets of the bill address critically significant student access issues, such as increase Pell Grant, Early Intervention, and recognition of Excellence. In tandem, they strengthen student access to higher education.

I speak on behalf of direct lending because of its advantages to students and because I know institutions have the sophistication to administer and originate loans to students under direct lending.

ADVANTAGES to STUDENTS

Having spent 3 days in lines in both the student financial aid office and in the University's Treasurer's Office during our Fall registration, I became more convinced than ever that as a society, even if it meant more work for my office, we must change the method by which students receive the proceeds of their student loan. I observed that every 3rd-5th student in line had a problem with the Stafford Loan. Most of the problems were fairly simple. Some students had begun the application process late, others had received scholarships or graduate fellowships at the last minute which reduced their eligibility, others had to wait simply because the check had not arrived from the lender for any number of reasons.

The very sad fact, regardless of the situation, was that each of these students who had already enrolled in school were faced with a 4-8 week delay before receiving the loan check -- a loan check for which we had already determined they were financially needy according to Congressional formulas, a loan check for classes which had already begun, a loan check to pay food, rent, and child care, and a loan check which they would personally have to repay.

What became obvious was that had we a direct lending today, we could have solved each of those student's problems within 48 hours.

As a professional, I knew that some of them would not, in fact could not, wait for the check. They would leave Colorado State University. Some would never return. Some would default on loans previously received.

1. Direct lending is simpler.
   It is simpler to understand and explain to the consumer. It's process is simpler to predict. There are fewer players and a more direct relationship between the student borrower and the loan itself. I believe that more direct relationship will improve repayment as few students today understand the complex repayment, secondary market process which supports the Stafford program.

2. Availability. The proposal offers a larger Pell Grant and increased loan limits. Middle income families who often feel disenfranchised with current eligibility criteria will now qualify.

3. Direct lending offers prompt error resolution. The problems mentioned above could be resolved in person, with a strong customer service orientation in a much faster timeline under direct lending.

## INSTITUTIONAL CAPACITY

Quite frankly, I am insulted when I hear my colleagues in the lending, Guarantee Agency and secondary markets indicate that institutions cannot administer a direct loan to students. Many of these outstanding professionals have never worked in an educational institution all the while analysing impact upon us. They caution us against liability, costs, the inability of the United

States Department of Education to administer the programs, lenders no longer "assisting schools" during a transition and the Congress capping the amount which is appropriated to schools to lend to students.

1. Liability. By signing a "Terms of Agreement" to participate in Federal programs, institutions already assume considerable responsibility and liability. We accept both, the responsibility and the ensuing liability as our students can seldom fully finance their education personally.

   Assuredly we must originate direct loans properly. By this I mean we must insure that only eligible students receive loans in a timely manner, are instructed that they must be repaid and of other rights and responsibilities, about options available to them. We must handle the funds correctly, report on and account for the funds, evaluate the success of the programs and its failures.

   We must also administer any other step in this very complex business without a single error. We cannot make a computation error, miss a single document, insure that families made no error when applying, confirm other schools, Federal and state agencies made no error in exchanging information with us. We must know that our records offices, athletic departments, Trio offices, Admissions Offices, computer systems, academic departments and any host of others make no error and are in constant communication with the student aid office. We must insist that faculty prove a student was in class even if there were 400 students in that class.

   In short, we are already liable. I believe, that we reduce liability with direct lending. We reduce it primarily because there are fewer places for error. We also reduce it because our review of the activities associated with origination will occur while the student is still enrolled. Institutions have in place existing methods of encouraging students to visit with us to review forms while they are in school.

2. Costs. As outlined in the paper by Betsy Hicks from Harvard and myself, we believe there are fewer meaningful administrative activities associated with Direct Lending thus freeing our very capable staffs to actually counsel with students. Counseling will not be limited to default prevention. Just as importantly, we will have time to assist in early intervention and intensive application assistance.

This past year, Colorado State University piloted such a program called Financial Aid Service Team (FAST). Essentially, we offered to families a service in which we would assist them to complete an accurate application, submit the application to the United States Department of Education for them, calculate their eligibility for aid and send them home knowing the cost to attend CSU and how they would pay for it. I cannot fully capture for you the appreciation these families expressed at both the money made available to them but also that they understood the process. We spent 2 1/2 hours per family, time we do not have when handling 10,000 checks twice a year in both the Financial Aid and Treasurer's offices.

The FAST model is possible for other institutions but not without relief from some of the meaningless work we do now. Direct lending relieves some of that meaningless work.

3. Department of Education. Several, including Secretary Alexander, have said that the USDE cannot handle direct lending despite the cost savings shown by the General Accounting Office and others. I disagree. The USDE has successfully demonstrated ability to handle the MDE project, the Pell reporting process, though we need improvements in timeliness. More importantly, the Department has initiated what I consider the only administrative innovations in the last decade: Electronic Pell which enables schools to correct a student's application at the institution, Stage 0 which allows a student to use a computer to complete an application with immediate edits for errors, Electronic Fisap and most recently Electronic Reapplication which will save the USDE millions in paper printing, contract cost and computing, while eliminating barriers and redundancy for students.

   I also believe your proposal is simpler for the Secretary than the current system of providing oversight for over 9,000 lenders and 48 guarantee agencies.

4. Lender participation during transition. Student lending is a commercially successful product line for lenders. While I agree that lenders will not develop new marketing plans, computer systems, etc., I simply do not accept that they will place the entire portfolio at risk, especially since in the majority of cases they hope to have the student in a long term client relationship.

5. Capping availability of loans. This issue, more than any, concerns me.

> Students at Colorado State University with our 2.9% default rate have no difficulty finding a lender. I would not put that liquidity at risk for them intentionally. However, I have to trust that it is not the Senate's intention to place higher education in this country at risk by limiting student access to credit. If that is your intention, you could have done so at any time in the last 20 years. I believe you would not choose such a course of action for your alma maters and for the future of our county.

In closing, I applaud your vision and your courage in considering legislation which will surely benefit students through increased access, more straightforward processing, increased availability to funds. I will gladly answer your questions.

# U.S. House Resolution 3211
# Middle Income Education Opportunity Act of 1991 and The Student Direct Loan Program

By Martin T. Wirth, Director of Legislative Affairs,
Associated Students of Colorado State University

HR 3211 is intended to consolidate the current GSL, Stafford and Perkins loans programs with a direct lending program. It has many features which recommend its revisions to the present student financing picture. Table 1 presents an overview of its direct effects on the student.

Table 1. Direct Loan Program versus GSL Program
Student Service Comparison

| Feature | | Direct Loan | GSL |
|---|---|---|---|
| Interest Rate | | 8% for life | 8% first 5 years<br>10% thereafter |
| Fees | | None | 5% loan origination<br>1-3% insurance[3] |
| Processing | | All on campus | Eligibility on campus, credit-worthiness at guaranty agency, loan at bank |
| Cycle time[1] | | 2 days | 3 days - 6 weeks |
| Yearly Borrowing Limits[2] | 1 | $6500 | $2625 |
| | 2 | $6500 | $2625 |
| | 3 | $8000 | $4000 |
| | 4 | $8000 | $4000 |
| | Grd | $13000 | $7500 |
| Eligibility[4] | | Matriculation and good standing | Matriculation and good standing |

[1] includes application and processing of minor corrections which must all be reconciled before the loan is made; varies by institution; corrections usually take longer.

[2] subtracting grants and other forms of financial aid for both programs.

[3] These charges come off the first check cut for the student. If the student borrows $2625 for the year, they might expect a check for an amount of $1312.50 , but 8% of $2625 is $210. So they will receive only $1102.50 .

[4] More middle class students will qualify for aid under the Direct Lending program.

While Table 1 on page 1 presents most of the comparative picture, there are other processing complications in the GSL program. The following discussion will focus on the two most common problems.

### The Repetitious Inquiry Problem in the GSL Program

The whole GSL process involves some 9300 lending institutions and about 46 guaranty agencies. Add approximately 200 institions of higher education and the picture becomes rather complex. There is no standardization of forms and many of the financial databases are unable to share information. Students often get final approvals from their campus financial aid office only to receive a subsequent letter stating that the loan will not be available until more information is sent to some agency or lender. In many cases, the student has already provided this information in triplicate. These repeated inquiries subject the student to considerable delays in receiving financial aid.

### The Precision Problem in the GSL Program

Suppose a sophomore applies for a GSL and a scholarship at the same time. The need basis of the student is determined to allow a GSL of $2226. Taking the fall semester half and subtracting 8% of the total gets a check of $934.92 . Afterwards the scholarship is approved for a yearly total of $400 . This puts the student $1 over the limit of $2625 per year total receipts including the GSL. Under the present regulations the check for $934.92 must be returned to the lending institution. It will take about six weeks to get a new GSL check for $933.92 leaving the student with only a fall semester scholarship check of $200 which will go in part for the late tuition payment charges, all for the sake of a dollar discrepancy.

### The Campus Processing Solution

Campus financial aid offices deal directly with the students they serve. By reducing processing cycle time, the direct lending program will receive and utilize necessary information faster. The student interacts with a single campus office so that when they obtain an approval for a loan, it is genuine. The precision problem would no longer impose a financial catastrophy on needy students. The cycle time for processing minor discrepancies would be reduced. In addition, because the campus financial aid office is part of the campus administration, it can assume some of the responsibility for late tuition payments.

Another helpful feature of the direct lending program would be the ability to make tuition payments electronically. This would help to eliminate the time and paper waste of handling millions of financial aid checks nationwide. Colorado State University handles about 7500 financial aid checks every semester.

## Taxpayer Support Basis

### Background

The Gramm-Rudman-Hollings (GRH) deficit reduction program is dead. It didn't work. When the guidelines of the act were exceeded, loopholes were exploited to render its provisions unenforcible. GRH was to end the deficit by 1991. But the year's projected deficit is expected to exceed $348 billion leaving the United States with a total debt of over $4 trillion. This year's interest payment on the debt is the largest single U.S. expense, Social Security is second, with the military running in third place.

GRH has now been superceded by the Budget Enforcement Act (BEA). The primary focus of BEA is spending limitation, not deficit reduction. Under BEA, appropriations are divided into three categories, each with its own fixed limit:

| | |
|---|---|
| Military | $291 billion |
| Domestic | $198 billion |
| Foreign | $21 billion |

A zero sum game now exists within each of these categories. Education falls into the domestic category and must compete for funding with all other domestic programs. It cannot play against any military program, but must compete with domestic programs like low income housing subsidies, highway funds, or agricultural price supports.

In the context of BEA, education has three alternatives to effectively maintain or increase available funds:

1. Attack the appropriations of other U.S. domestic programs.
2. Cut costs and reallocate funding within U.S. educational spending.
3. Raise state taxes for education.

U.S. House Resolution 3211 invokes option 2. It will modify the Higher Education Act of 1965 which is due for reauthorization by Congress in September 1992.

### Financial Aspects of the Direct Lending Program Under HR 3211

Accounting methods prior to BEA did not take into account the long term cost of finance. They operated on a "cash" basis where federal outlays for only the present year were counted in assessing the cost of a program. Credit reform law will apply to all programs instituted after October 1, 1991. Under credit reform, the cost of programs will be assessed on a "subsidy" basis. Unlike the "cash" basis, this method takes into account the long term cost of money. Its future value is based on the interest rate of long term Treasury Bills. All costs are considered in terms of this year's dollars.

The cost of a dollar loaned by the U.S. is called the subsidy. It is cited as the percentage on the dollar, or as an amount in cents, paid for each dollar loaned. The direct lending provisions of HR 3211 will reduce the subsidy by effectively purchasing capital at wholesale rather than retail rates. The financial changes in student lending are summarized in Table 2.

Table 2. Direct Loan Program versus GSL Program
Financial Aspects

| Feature | Direct Loan | GSL Program |
|---|---|---|
| Purchased Capital | Wholesale | Retail |
| Estimated Subsidy on the Dollar Loaned | 18% | 28% |
| Can it be audited? | Yes | No |

Estimated savings to the federal budget vary between 0.9 and 1.4 billion dollars for replacing the GSL with the direct loan program. Most of the savings will come from financing the new program with wholesale capitol, not from new constraints imposed on students needing to borrow for education. The United States offers generous subsidies to encourage private lending in the GSL program. These subsidies amount to 28 cents per dollar loaned.

The Government Accounting Office has complained that the GSL program cannot be audited because of its complexity. The present claim of nearly $50 billion in outstanding loans is thus open to question. Are past students to blame for all or part of this estimate? Taxpayers have a right to know where their money is going. Recent history has shown that any program that cannot be audited is subject to corruption and even outright theft. For the student, this means that the program may be loosing money to non-student interests while foisting the blame onto students.

## The Political Campaign

HR 3211 will meet with viscious lobbying opposition from the guaranty agencies and banks. The banks in Fort Collins alone are estimated to do over 14 million dollars in student lending per year. The Network newsletter published by the education credit industry claims that the guaranty agencies and banks share the burden of default risk with the federal government. In fact, the federal government has presently covered 98% of all defaults. This means that the private lenders do GSL business virtually risk free! We can expect to hear of and contend with more of this kind of disinformation in the future.

For HR 3211 to win the support of the House of Representatives there must be clear and unequivocal student support for this type of fiscal reform. Federal budgetary advantages must be touted along with the benefits to students. Assuming the zero sum game is maintained in the 1990's, any money saved in education may be reallocated to other areas of educational interest like general tuition reduction and grants.

# COMPARISON OF ADMINISTRATIVE FUNCTIONS FOR SCHOOLS UNDER THE STAFFORD LOAN PROGRAM AND A DIRECT LOAN PROGRAM

## Summary of the Comparison

The purpose of this paper is to compare the administrative functions of schools under the current Stafford Loan program with a direct loan program.

There are several conclusions that can be drawn from this comparison. First, a direct loan program decreases the administrative functions of schools. All schools, whether they are large or small, automated or not, will experience a decrease in the number of responsibilities and the time spent on these tasks. In addition, unlike the current program, schools will receive an administrative allowance for each loan originated each year -- $20 has been proposed.

Second, a direct loan program provides greater opportunity for schools to make use of newer technologies, if they chose. However, all schools, whether they are automated or not, will benefit from the electronic transfer of funds.

Third, by eliminating lenders and guarantors and centralizing functions, the problems of multiplicity of policies, procedures, systems, and forms is eliminated. In addition, centralization provides all schools, regardless of the size of their annual Stafford Loan portfolio, with economies of scale.

Last, but not least, a decrease in the administrative functions of schools will improve service to students and allow institutions to focus their energies on default management strategies, thus preserving the integrity and perpetuity of our largest federal student financial aid program.

A total of 64 administrative functions was identified. 31 functions, or 48%, are current functions under the Stafford Loan program that will continue under direct lending. 28, or 44%, are current functions under the Stafford Loan program that will be simplified or eliminated under direct lending. 5, or 8%, are functions that are not currently performed under the Stafford Loan program but would be added under direct lending.

None of the current Stafford Loan institutional eligibility functions will change under direct lending. The majority of the simplification and elimination of functions will occur in the areas of loan disbursement, reporting, recordkeeping, and cash management. Under direct lending, one function each will be added in the categories of loan disbursement, reporting, staff training, cash management, and general administration.

G. Kay Jacks
Colorado State University

Elizabeth M. Hicks
Harvard University

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## TABLE I
### SUMMARY OF FUNCTIONAL ANALYSIS

| Category | Number of Continued Functions | Number of Simplified Functions | Number of Eliminated Functions | Number of Added Functions |
|---|---|---|---|---|
| Institutional Eligibility | 6 | 0 | 0 | 0 |
| Student Eligibility | 2 | 9 | 1 | 0 |
| Counseling Borrower | 5 | 0 | 1 | 0 |
| Loan Processing | 10 | 1 | 0 | 0 |
| Loan Disbursement | 1 | 1 | 4 | 1 |
| Reporting | 2 | 5 | 3 | 1 |
| Recordkeeping | 4 | 6 | 1 | 0 |
| Staff Training | 1 | 0 | 1 | 1 |
| Cash Management | 0 | 0 | 4 | 1 |
| General Administration | 0 | 0 | 0 | 1 |
| TOTAL | 31 | 13 | 15 | 5 |

## TABLE II
### CONTINUED FUNCTIONS

The following administrative functions are those that schools currently perform under the Stafford Loan program that would continue under direct lending.

**Institutional Eligibility**
* Be accredited
* Be licensed
* Be certified to participate in federal student financial aid programs
* Develop a refund policy
* Execute a Program Participation Agreement and comply with general and GSL provisions
* Determine eligibility of institutional programs

**Student Eligibility**
* Determine each borrower's student eligibility including:
  * Receipt of high school diploma or equivalent
  * Citizenship status
  * Enrollment status
  * Satisfactory academic progress
* Assure each borrower's compliance with additional eligibility requirements including:
  * Statement of Educational Purpose/Non-default Statement
  * Selective Service Registration Compliance Statement

**Counseling Borrower**
* Provide consumer information to current and prospective borrowers
* Distribute pre-loan information
* Conduct entrance loan interviews
* Conduct exit loan interviews

## TABLE II (con.)

**Loan Processing**
- Collect a federally approved financial aid application from each borrower's family
- Determine each borrower's dependency status
- Determine each undergraduate student's eligibility or ineligibility for a Pell Grant
- Determine each borrower's expected family contribution according to the federally mandated need analysis, i.e., Congressional Methodology
- Verify applicant data for selected borrowers by collecting and reviewing supplementary information, such as federal income tax forms
- Determine each borrower's loan period
- Determine each borrower's cost of attendance
- Determine each borrower's estimated financial aid for the loan period
- Ensure that each borrower is not overawarded
- Reaffirm each borrower's loan eligibility before each disbursement

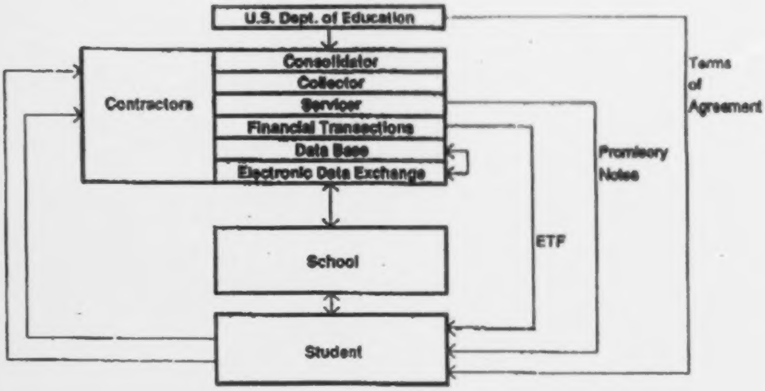
**Loan Disbursement**
- Perform loan disclosure (excludes truth-in-lending from which both Stafford loans and direct loans are exempt)

**Reporting**
- Respond to correspondence and phone calls from borrowers
- Monitor and report changes in borrower's last date of attendance

**Recordkeeping**
- Data used to construct cost of attendance
- Amount and date of tuition and fees paid by borrower
- Data and certifications to determine the expected family contribution
- Record of student's placement in job after school, if known

**Staff Training**
- Keep informed of changes in federal regulations

Federal Direct Loans


U.S. Dept. of Education
Contractors
Consolidator
Collector
Servicer
Financial Transactions
Data Base
Electronic Data Exchange
Terms of Agreement
Promissory Notes
ETF
School
Student

## TABLE III
### SIMPLIFIED FUNCTIONS

The following administrative functions are those that schools currently perform under the Stafford Loan program that would be simplified under direct lending.

**Loan Processing**
- Complete school section of each borrower's loan application (simplified as essential data for each eligible borrower is consolidated and transferred to a central source by paper, disc, tape, or modem)

**Loan Disbursement**
- Post individual loan checks to each borrower's account at the beginning of each semester, trimester, or quarter (simplified as institutions use existing procedures under the Pell Grant and campus-based programs to draw-down aggregate funds for eligible borrowers at the beginning of each semester, trimester, or quarter and batch post loan proceeds directly to borrowers'accounts)

**Reporting**

- Notify individual lenders and/or guarantee agencies if borrower's address or enrollment status changes (simplified as schools report all changes in enrollment status directly to one source, i.e., the servicer)
- Submit reports to lenders, guarantee agencies, and secondary markets (simplified as multiple reports to lenders, guarantee agencies, and secondary markets are eliminated since schools report directly to one source, i.e., the servicer)
- Complete semi-annual student Status Confirmation Reports for each guarantee agency (simplified as schools update student status by paper, disc, tape, or modem to one source, i.e., the servicer)
- Report and return all overawards and refunds by issuing a separate check to each lender on behalf of each borrower (simplified as schools report all overawards and refunds to one source and net these amounts from next draw-down of funds)
- Process individual deferment forms from multiple sources (simplified by centralization of loan records)

**Recordkeeping**
- Copy of the loan application (simplified by elimination of multiple versions of the loan application)
- Determination of Pell Grant eligibility or ineligibility (simplified by creation of central data base which merges the applicant data base with the Pell recipient base and the new loan data base)
- Amount of loan (simplified by centralization of loan records)
- Dates of loan period (simplified by centralization of loan records)
- Certification of non-default status (simplified by elimination of multiple versions of the loan application)
- Date institution received check, endorsed the check, and gave the check to the borrower, or posted it to the borrower's account (simplified by electronic transfer of funds, centralization of loan records, and batch posting of loan proceeds)

# TABLE IV
## ELIMINATED FUNCTIONS

The following administrative functions are those that schools currently perform under the Stafford Loan program that would be eliminated under direct lending.

**Student Eligibility**
- Assuring that each borrower who attended a prior institution submits a Financial Aid Transcript from each institution

**Counseling Borrower**
- Educating all borrowers on the role of lenders, guarantee agencies, and secondary markets in the loan delivery system and instructing borrowers on the steps to follow to apply for loans from an external source

**Loan Disbursement**
- Receipt of individual checks on sporadic basis from lenders
- Informing individual borrowers on an ad hoc basis of the receipt of their loan checks
- Securing endorsement of checks by borrowers before checks expire
- Repeating the above three functions for each borrower each semester, trimester, or quarter

**Reporting**
- Respond to correspondence and phone calls from lenders
- Respond to correspondence and phone calls from guarantee agencies
- Respond to correspondence and phone calls from secondary markets

**Recordkeeping**
- Name and address of lender

**Staff Training**
- Train staff to be knowledgeable of the policies, procedures, systems, and contact persons for the various guarantee agencies

**Cash Management**
- Student cash flow problems due to lack of control over disbursement of loan proceeds
- Need to develop institutional capital for short-term loans to students whose loans are not disbursed in a timely manner through no fault of the student or institution
- Institutional cash flow problems due to sporadic receipt of loan checks from lenders
- Lack of administrative allowance from the federal government for schools

## TABLE V
### ADDED FUNCTIONS

The following administrative functions are those that schools do not perform under the Stafford Loan program that would be added under direct lending.

**Loan Disbursement**
- Originate loans including:
  - Collect borrower's signature and date on promissory note
  - Transmit promissory note to federally contracted servicer

**Reporting**
- Report defaulted Perkins loans to central loan data base (necessary to eliminate the Financial Aid Transcript)

**Staff Training**
- Initial training of staff in administration of a direct lending program

**Cash Management**
- Conduct federal cash management including:
  - Estimate capital needs
  - Reconciliation of draw-down of funds

**General Administration**
- Maintain dual systems during phase-out including:
  - Originating new Stafford loans as direct loans and processing deferments for old Stafford loans under the terms and conditions governing those loans
  - Managing Perkins portfolio as an endowment while continuing to collect old Perkins loans under the terms and conditions governing those loans

Colorado Student Association
1630 Welton Street, Suite 300
Denver, CO 80202
303-595-8303

"DIRECT STUDENT LENDING BILL SUPPORT"
H.B. 3211

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## RESOLUTION OF THE COLORADO STUDENT ASSOCIATION

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| | |
|---|---|
| WHEREAS: | The Colorado Student Association represents 72,000 students of higher education in the state of Colorado, and |
| WHEREAS: | It is the intent of the Colorado Student Association to be pro-active in asserting student interests, and |
| WHEREAS: | The passage of House Bill 3211, the "Direct Student Lending Bill", will convert existing Federal lending programs into a single, direct lending program within universities and eliminates 3rd party participation of banks, lending institutions, etc., and |
| WHEREAS: | House Bill 3211 allows for consolidation of Stafford and Perkins Loans into direct lending, and |
| WHEREAS: | House Bill 3211 will set forth direct lending without the common 5% institution handling fee and 3% insurance fee that are currently removed from student loans, and |
| WHEREAS: | House Bill 3211 allows for an interest rate ceiling of 8%, even after 5 years, and |
| WHEREAS: | House Bill 3211 will save taxpayers $1.4 billion the first year, and |
| WHEREAS: | A projected $6.6 billion of taxpayer's money is estimated to be saved over the next 4 years, and |
| WHEREAS: | Passage of House Bill 3211 simplifies the process of applying for and receiving student loans, and |

THEREFORE, LET IT HEREBY BE RESOLVED THAT:
The Colorado Student Association supports the passage of House Bill 3211.

PASSAGE:____________________ DATE:__________
CSA PRESIDENT'S SIGNATURE:________________ DATE:__________

MEMBER SIGNATURES

Tom Mayer, President, Associated Students of Colorado State University
Eden Cook, Executive-Assistant University of Colo. at Denver
[illegible], President Associated Student body Western State College
[illegible] Legislative Affairs Commissioner
[illegible], V.P. to the Board of Trustees UNC
[illegible] Student Body President, [illegible]

Senator SIMON. Thank you very much for your testimony, and I want to thank all of you. Dr. Silber, I know you may still have to catch that plane—or, you may have missed your plane, I don't know——

Mr. SILBER. I missed it.

Senator SIMON. You've missed it. Well, I will go ahead, then, and ask these questions of you first.

First, in your opinion—and you touched on this briefly in your testimony—would this direct lending program mean additional burdens to schools? And let me just say the bankers and those who are profiting from the present system are doing a very effective job, much more effectively than I can do by myself, in getting the word out that this is going to be a horrible thing for you and your school to do, and you can't manage it, and so on. Are we talking about substantially increased problems for schools in administering this?

Mr. SILBER. Not at all. I think we are talking about the simplification of it and the focusing of it in more efficient ways. I think Ms. Jacks' testimony was right on target. I would want to subscribe to everything she said. Boston University is prepared also to provide you with a pilot program next fall; you just make the funds available, and we'll show you how easily it will be administered and how easy it is to bypass the banks and make the direct loans.

We do most of the paperwork for the banks, and we have to sit there and broker with a wide variety of financial institutions in order to get the loans accepted. So the idea of being able to do it directly by having access to the money, directly transferring the money to the students, completing the forms, is going to take different kind of work, and we are going to have to spend some money and some time teaching people to complete the new procedures. But once that introduction is made it becomes a far simpler process.

And so far as having to go chasing students around the country, that is something we won't have to do. They will have to file with the IRS, and the IRS is a singularly effective agency for tracking people down and getting collections from them. There is not any collection agency in the country that is equal to the IRS, and I think that is another aspect of the efficiency of this proposal.

Senator SIMON. You went through this idea not just once before, but you have been floating it out here for some time. Who can we anticipate is going to be the major opposition to this?

Mr. SILBER. Well, in 1978 when we first proposed the Tuition Advance Fund, the primary opposition came from the State Association of Colleges and Universities that had a heavily-subsidized tuition, and they had relatively low room and board, and at that time, the price of education to the student in the State sector was so low relative to that in the independent sector that they didn't see the need for it, and they weren't enthusiastic.

Now we have seen shortages of funds in the States and substantial increases in the price of tuition in the State sector and very dramatic increases in the price of room and board in the State sectors, and now I think the State universities and colleges are beginning to understand that they too could benefit by access to much more financial aid by students who can profit from taking out these loans. Also, it has become quite clear, I think, to the general public that State universities are educating the same kind of people that are being educated in the independent schools, children of prosperous parents, children of middle class parents, and some children of minority and lower-income families, but the difference is not all that great, and consequently they now recognize that middle class and upper middle class families have financial problems, and with that recognition I think they should be more apt to see the advantage of this than they did before.

Now, I think you can always depend upon the banks preferring to have a guaranteed loan, a loan guaranteed by the Federal Government, and three or four percentage points profit extra in order to take on this nonrisk. That's a sweetheart deal—I'd love to have the business myself. But what we need from the banks is not to have to try to crowd out students by these extra charges. Instead, we need the banks to be lending money to young couples who want to buy their first home, or to builders who want to develop. They should be lending money for economic development activities in this country, and I think it is surprising that they should try to get involved in stopping a program of this sort where if we can put money into the hands of students at a reduced interest rate, the reward to the country in terms of increased productivity will in the long run help no institutions more than it helps the banks.

Senator SIMON. I could not agree with you more, and I thank you, Dr. Silber.

Dr. Trueheart, you said among other things that we need a more focused examination on this, and I agree. All of a sudden we face—how many pages do we have in the bill, Dave—a 560-page bill plus this amendment, the separate bill. I hope we're going to have the chance to do that now.

Dr. Trueheart, where did you get the idea that this would involve a lot more paperwork for your school? The GAO report indicates it would be less paperwork, and others have indicated that. Where did this idea come from?

Mr. TRUEHEART. Senator, I don't think I said that there would be more paperwork. I think what I said was that the administrative responsibilities would be greater. Now, paperwork is part of that, more paperwork is part of it. But I think that it shouldn't simply be limited to paperwork. At Bryant for our 5,000 students, we have four full-time professionals and six work-study students, and two of those professionals job-share. They are enormously overworked at this point.

We have had, in fact, experience with the Perkins loan program, and it has been very, very difficult. My concern is if we take on a direct loan program that the responsibility will be much, much greater, and I believe that we would have to, not just as John Silber suggested, re-educate those individuals, but my concern is that we may have to add additional people in order to be able to accomplish the same task.

Senator SIMON. But in fact, unlike the Perkins where you actually have to collect, all you do under the direct is you get the student to sign, you send it off to wherever, Department of Education or IRS, so that in fact those overworked employees of yours ought to get some relief.

Let me ask a second question. If, upon this more "focused" examination, to use your phrase, you were to look at this and see that it greatly expanded the opportunity for people in this country to go to college, let's just say in theory you'd have to add one more person—I think in fact you would not—but would it be worth it for your college to do that?

Mr. TRUEHEART. Well, I don't think the problem with our current loan system rests with 4-year institutions or with graduate students. I think the problem rests with a number of institutions that are proprietary institutions in large measure——

Senator SIMON. But you are shifting the focus away from my question—and wherever we have problems, we ought to face them—but what I want to do is to make sure that we have the means for people to go to college, that we increase the opportunity.

Mr. TRUEHEART. Surely, and I am certainly committed to that.

Senator SIMON. And that is a 4-year problem. We have a declining percentage of high school graduates who are African Americans who are going to college; we have a declining percentage of Hispanic Americans going on to college. What we have to do, and what Senator Durenberger and I are trying to do, is say to people of talent: We want you to go to college.

My question to you is if you can increase that pool of people who can go to college in this Nation and at your school, is it worth—let's just say you have a little more paperwork, but I don't think you will; I think the evidence is—and I am going to get to Ms. Jacks' and Mr. Wenc's comments in a minute—but let's just say you had to add one or two more people to handle that. Is that worth the burden to create more opportunity and invest in this country?

Mr. TRUEHEART. Clearly, Senator, it is. And I applaud your work on trying to figure out a way to increase opportunity; that is certainly consistent with my beliefs and my persuasions. That's why I am in higher education.

Senator SIMON. Thank you.

Dr. Silber, did you want to add something there?

Mr. SILBER. No, but could I be excused at this point?

Senator SIMON. You may be excused—the chairman is now here.

Mr. SILBER. Mr. Chairman, the last chance I have to make it is just about to disappear.

Senator PELL. I know those planes; I take them myself. We appreciate very much your coming and wish you a good trip home.

Mr. SILBER. Thank you very much.

Senator DURENBERGER. Mr. Chairman, as John leaves may I just [illegible] I for one would appreciate it if you could—not now, but at some point—think about the objections of Bob Reischauer. You and Bob have been at this almost as long as anybody, and you preceded him. He said there is a generational equity problem here. He said we are transferring the burden to the kids that should be borne by the parents. He also said we're just going to open up the spigot so the colleges can charge as they please, and they won't pay attention to cost containment. Then you made a very good point earlier on about investment versus consumption. I think if you could take each of those three larger points, if you would, and any others that come to you, at least it would help me since I'm not going to have an opportunity to ask you that specifically.

Mr. **Silber**. I'd be very happy to. Thank you very much.

Senator **Durenberger**. Thank you.

Senator **Simon**. Mr. Chairman, I have used my five minutes.

Senator **Pell**. Carry on.

Senator **Simon**. I wonder if I could just ask questions of the remaining witnesses and then listen to my colleagues; I will try to be brief.

Senator **Pell**. Yes, please.

Senator **Simon**. And I want to thank Dr. Silber and all of you for being here.

Mr. Wenc, I remember you were here at least on one other occasion.

Mr. **Wenc**. Yes, I was.

Senator **Simon**. As you take a look at this, does it appear to you that you would have additional paperwork and more responsibilities that way at Carleton College?

Mr. **Wenc**. I think it would be a wash, Senator, and if indeed I did have that additional burden, I believe that I could make a convincing argument to my president to give me adequate staff to carry out my responsibilities.

Senator **Simon**. I'm just going to leave it right there.

Dr. Bronson, good to see you again. I spoke with a fellow named Bill Gray on the phone today, and he was bragging about you.

Mr. **Bronson**. I'm glad to hear my new boss say some good things about me.

Senator **Simon**. I think he puts it the other way around, Dr. Bronson. [Laughter.]

First, when you say we have to use caution, I agree, and I think we have to make sure we're going in a solid way. My hope is that we can delay this just a little more while we take a good, solid look at what we are doing.

Second, the point that you make on Pell Grants and enlarging them—you've got my vote for any enlargement of the Pell Grant we can get. What Senator Durenberger and I have done is to take the $600 that we save, $600 per student, and we enlarge the numbers who receive Pell Grants by 470,000. While the administration has a $3,700 Pell Grant, they dramatically reduce the numbers of people who are eligible.

Mr. **Bronson**. That's right.

Senator **Simon**. In your testimony you also quote Dr. Henderson, the president of Wilberforce, saying, "I just simply don't think lending money and collecting these debts really is in the purview of an educational institution."

Under this program, you would not be doing that. You would get the note signed, but you shift that off however we structure it, to the Department of Education or the IRS. Would that change your view of it a little?

Mr. **Bronson**. It certainly gives me a new insight that perhaps I had not thought about. I guess my main concern was stated in the beginning of my testimony, about the use of the word "caution". It seems to me if we could field-test this with several institutions first, of a variety of backgrounds and cultures, and then based upon the findings from that test, we would probably be in better shape to determine just how successful this would be.

I too will join Dr. Trueheart in saying that I am grateful to you for your efforts to provide more funds so that more students can go to college. I guess my concern is the administrative cost. I am not at all convinced that $20 per loan will cover the cost that it will take to administer the program. I have heard some statements infer that it may be three or four times more than that, and that the institutions will have to assume that burden. That's an apprehension, but that apprehension is also soothed by the fact that you and Senator Durenberger are making such a strong effort to provide more funds, for which we are very, very grateful.

But once we can get answers to those questions, we'll feel so much better.

Senator SIMON. And I think we've got to work on those, and I look forward to working with you and Bill Gray and that fellow in back of you, Bud Blakey, with whom I have had an association or two—he may deny it—over the years.

Ms. Jacks, I was fascinated, among other things—first of all, thanks for your excellent testimony—I was fascinated by Table 1 of your testimony. You are talking about the number of functions that schools now follow, and as I follow you through this, the number of continued functions that you have right now are 31; the number of simplified functions are 13; the number of eliminated functions under this system are 15, and the number of added functions are 5.

Ms. JACKS. Yes.

Senator SIMON. Now, what you can't measure in going through this—and this is the thing that bothers Dr. Bronson, Mr. Wenc isn't real sure about, and Dr. Trueheart is concerned about—obviously, if one of the added functions here takes ten times as much time, then we should weigh it more heavily.

Ms. JACKS. Correct.

Senator SIMON. But as you look at that table analysis there, does that table suggest to you—and you know much more about this than I do—does that table suggest to you that there will be more work or less work for your school, Colorado State, and any one of these other schools that are here?

Ms. JACKS. I believe that there will be less work directly associated with lending, particularly in the form of paperwork. We have calculated that Colorado State University would eliminate 182,000 pieces of paper associated with the current system because of the recordkeeping that goes on with that. I think it tightens the availability of the money between the student and time they need it. The recordkeeping, we pick up, we currently do now, to multiple parties as opposed to single parties, and very unpredictable time frames. I think we'll be doing very similar work to different entities and not as many entities.

I also think we'll have some different work. I respect the concern. Much of what shifts is likely clerical, monitoring. At Colorado State University, we receive in excess of 12,000 checks a year, or per semester, and we handle that, our treasurer's office handles that. I think when we look at direct lending, we have to look at the entire institution; it is not just the student aid office that is involved in the current program. It is the records office, verifying enrollment of students for years. It is certainly the fiscal office, which has to disburse that money, and the student aid office. So you are handling that many, many times.

We didn't even look at that when Betsy Hicks and I did this; we were just looking at the student aid office. So I believe that there is work eliminated and more meaningful work, contact with students——

Senator SIMON. Do you want to identify for the record the person who helped you with this?

Ms. JACKS. Betsy Hicks from Harvard University.

Senator SIMON. OK. I thank you very much, all of you. You have been great witnesses. I thank my colleagues for their patience while I exceed my 5-minute rule.

Thank you.

Senator PELL. I'm very glad you did.

Senator Durenberger.

Senator DURENBERGER. Mr. Chairman, I'm going to try to be brief because I haven't been to a 4 p.m. hearing in a long time, and I'm sure a lot of the folks in this room haven't, either, and all of these people have come from long distances.

It is impossible to explain the differences between all of these proposals, but I have listened very carefully particularly to President Trueheart and Dr. Bronson, speak to their objections, and in their testimony I heard a lot of the same objections that I have heard to the House direct loan bill—like the $20 per loan the burdens on the schools and so forth. I would just hope, because we went to great lengths in our bill, to adopt the best of what we had heard from a lot of people, including our colleagues over on the House side who have been debating that issue back and forth between the direct loan program and the IDEA program from Congressman Petri and others.

We really believe that there are differences—important differences—between the impact on the universities of our program versus the program that is being debated over on the House side. I think to some degree, the House direct loan program shifts a lot of the burdens that banks and the secondary financiers currently care; it shifts them over toward the colleges. I just hope that the two of you, in this ongoing process of being helpful to all of us, will go back and re-look at these various proposals and see if there is a way to distinguish between these various new approaches, and maybe in that process we'll all find the best in each of them.

I want to ask a question of anyone who is willing to respond about a problem that Mr. Reischauer alluded to in his testimony. I asked him what were the two problems he saw with it, and he said one is this generational shift. He and I and a lot of other people have been involved for about 6 years in something called generational equity, the notion that ours is about to be the first generation to leave the next generation less well-off, and this is the first in a line of 13 generations where this has happened. So when he says you are shifting the burden to the next generation, my eyes light up, and I get kind of concerned.

I must say that, while I haven't thought of all the ramifications of that, one of the important things that brought me to this idea is that if education is understood as an important part of the income security system in this country—it isn't just something you do after you get out of high school, and it isn't just something you've got to do in order to get the "B.A." or the "B.S." after your name—it is a really important part of achievement in the broadest sense in life, and it becomes a part of the income security system. If we have people coming into this system, understanding that the harder they work, the more they apply themselves, the more they open themselves up to the teachers and the professors and so forth, the greater the opportunity in this system, and they won't be penalized in one way or another if opportunity means a lower-paying job. I mean, opportunity in America today should mean going back into teaching; opportunity in America today should be a social worker; somebody who will get out on the streets where there are some real problems in our society, or a child care worker. These are not the high-paying, big bucks professions. But going into college, the student loans all look alike, and the interest rates are all the same.

The nice thing about this proposal that has attracted me to it has been that it is income-dependent—that is, you put the effort in, and you find out what you want to do in life, and you're not going to have to worry about having to find this other thing up here because it pays more to pay off all those loans.

There is also a question of consistency. Today we've got Stafford, we've got SLS, and we've this, that, and the other thing, and then HEAF falls in St. Paul. What does that mean for students. So building into the American system, if you will, the right to go to college, higher education, a way to finance it that makes sense, that treats everybody alike, becomes very important.

The other side of it is in following out the generational equity theory, Bob Reischauer said, well, they can borrow against their home equity. Well, I want Bob Reischauer to come up to Two Harbors, MN, where the miners bought a home for $60,000 or $70,000 when the steel plant was working, but as soon as the steel plant went bankrupt, the homes went from $70,000 down to $8,422 because somebody from Chicago wanted a summer home.

Where is the home equity? Or go into agriculture, or go to a lot of other places. We are not all similarly situated if we go back and tell everybody to borrow from their home equity. That is not the real world out there.

So depending on parents and family at one time was a very important part of this process, but it is becoming less and less a reliable foundation on which to build an access system. I think that is the other side of what has brought me to this.

If any of you would like to comment about that—again, I do appreciate the thoroughness of all of your statements already, but if you can add some dimension to that, I'd certainly appreciate it.

Ms. Jacks. I'll try. If you are asking does this direct lending program force that generation who borrows to have to bear the cost for someone else, I don't think so, any more than the current system. Right now, students have borrowed—whatever the estimate—$52 billion, and that's a fair amount of debt, and this proposal doesn't force them to do that any more than the current system does.

And while I have not looked at the income-contingent repayment as thoroughly as I need to, at least you are suggesting a method, as you outline, where individuals could opt for jobs that are sorely needed in our society and not feel they cannot do that.

When Senator Kassebaum asked what about the defaults in this program, and they're not really here in the costs associated with that, we have tremendous costs associated with defaults now. We could call them income-contingent or whatever because they will never be able to pay them back, and we leave them with something worse, which is failure and no opportunity to get back into the educational system.

So I think you are attempting to combine two, and I don't think you are pushing more debt than the current system. Like everyone else up here, I certainly hope we can find ways to put more and more into the Pell Grant program, which is where we desperately need it.

Senator **Durenberger**. Does anyone else feel a need to comment?

Mr. **Bronson**. My concern is related to that, but in a different way. You mentioned home equity, finding funds from other sources to assist with education expenses. What concerns me about the present program if we work this particular thing out is shortfalls, whether or not the funds will be available when needed. As it is now, I would imagine the banks will intend to cover it until perhaps the funds can come from wherever they are coming from.

So often, we are appropriating so many dollars and then later, because of shortfalls, the money is unavailable or is delayed. What happens in the process is another issue, I think, that concerns us.

I'm not able to address the whole issue that you raise, but I am concerned about whether or not the money is available for this generation as well as the future generation.

Senator **Durenberger**. Mr. Chairman, I just want to conclude by asking unanimous consent that a statement by John Schullo, director of financial aid for Bemidji State University in Minnesota, also be included in the record. (This statement was included in material submitted by Senator Simon earlier in the hearing.) Bemidji State is a 4-year public university in our State, about 5,400 students. It is way up in the northwestern part of our State, covers a large Native-American very diverse population. John is the past president of the Minnesota Association of Financial Aid Administrators, and on behalf of many of them, also endorses the proposal. I also certainly appreciate Mr. Wenc being here today and his endorsement as well.

Senator **Pell**. It will be included.

[Additional statements and material submitted for the record follows:]

hesc HIGHER EDUCATION SERVICES CORPORATION
NEW YORK STATE

Cornelius J. Foley
President

October 28, 1991

The Honorable Claiborne Pell
SR-335 Russell Senate Office Building
Washington, D.C. 20510-3901

Dear Senator Pell:

As President of the student financial aid agency of New York State, the Higher Education Services Corporation (NYSHESC), I would like to provide initial comments on the Title IV section of the draft bill to reauthorize the Higher Education Act that was introduced on October 21, by the Senate Subcommittee on Education, Arts and Humanities.

We have been pleased to work with you and your excellent staff over the years to discuss issues important to our State's postsecondary students and to our member associations, the National Association of State Scholarship and Grant Programs (NASSGP) and the National Council for Higher Education Loan Programs (NCHELP). Your suggestions have helped guide us as we sought to strengthen the performance of programs such as the State Student Incentive Grant (SSIG) Program and the Guaranteed Student Loan Program (GSLP).

As we initially read your subcommittee's draft bill, we were pleased to see continuance of our discussions through the many thoughtful program enhancements it contained. We were particularly pleased to see efforts to increase grant funding and streamline the need analysis formulas, as well as consideration of new approaches to early intervention (we have seen much local success in that area through Eugene Lang's "I Have a Dream" program and the New York State Liberty Partnership program).

We were especially pleased to see the continuation of the current GSLP structure, while directly addressing many issues which will improve the program's educational and administrative effectiveness. While there may be a few issues that we will need to review in detail to assure that intent will be achieved, the loan program recommendations reflect thoughtful consideration of the program's strengths and weaknesses.

Albany, New York 12255

We have been, however, distressed to learn that at least one member of your subcommittee is proposing to scrap the current GSLP in favor of an untested alternative. It appears that many people are being swayed by unproven, and often conflicting claims of cost savings. We have studied several recent commentaries on a similar proposal contained in H.R. 3553, including Secretary of Education Alexander's October 2, letter to Congressman Ford and Sallie Mae's detailed cost comparison between the current GSLP and the House direct loan proposal (enclosed). We feel that these and other documents raise serious issues, including:

- The recent report by the General Accounting Office did not include the cost of switching over to a direct loan program.
- How much will the hardware, software, staff hiring and development at the schools and servicers add to the proposal's costs? Where will the money come from?
- Can the federal government afford the proposal if it doesn't "break even" until after its 14th year of operation and it involves borrowing an additional $200-$300 billion?

I have stepped back and looked at the current Guaranteed Student Loan Program, particularly as it is working in New York State, and feel that it is moving in the right direction to maximize student access and minimize costs. For example, our agency is a student loan guarantor and a State agency - we are a member of the executive branch of government and are scrutinized by a number of State regulatory bodies including the Attorney General, the Comptroller, and the Superintendent of Banks. We are directly accountable to the State Division of the Budget for every expenditure and to the State Civil Service Commission for every hiring, promotion, and other staff changes. These overseers function in addition to the several federal agencies that regulate the administration of the GSLP.

The State guaranty agency model works. I am pleased to note that one recent review conducted by the U.S. Department of Education concluded that the New York State Higher Education Services Corporation was fiscally strong, that it used sophisticated financial models, and that it employed loan default collection techniques which the Department should consider using (copy enclosed).

As a State agency, we have also worked with the Board of Regents, the Governor's office and the Legislature to craft legislation designed to better control high default rate schools, thus improving students' education and their ability to repay student loans (summary enclosed). That legislation, in conjunction with the over 230 lender and school reviews we conducted last year, has begun to show results. Several high default rate schools have closed and the proportion of non-degree vocational school student loans among new loans approved has dropped from 28% two years ago to 10.7%. We expect default volume to fall accordingly, as for the first six months of our current State fiscal year, defaults are down significantly. Additionally, only 16 schools in our State will likely be affected by the "35% default rate loan eligibility cut-off" rule that is in current federal statute and regulation.

As a State guarantor agency, we are also committed to providing aid to students at the lowest cost and with maximum efficiency. For example:

- our agency's student loan insurance premium is only 1%, and is lower than 80% of all guaranty agency premiums, per a recent survey by the National Council on Higher Education Loan Programs (NCHELP);
- we integrate our loan information and processing activity with our State grants and scholarships to provide $1 billion in loans and over $400 million in State aid to our students (with help from the State Student Incentive Grant (SSIG) program); and
- over 80% of our loan processing is automated and paperless, making us a leader in this area.

I raise these examples to show you the strength inherent in the current Guaranteed Student Loan Program structure. These are strengths that will be lost if the Direct Loan Program proposal were approved as it would likely force our agency out of the student loan program. I'd recommend that many of the GSLP changes included in your subcommittee's bill be given a chance to work, and in doing so, allow them to further strengthen New York State's commitment to a well-run loan program.

I have to ask if it is indeed rational to scrap a proven system of providing student loans with a new concept when that concept hasn't been tested and when there is no recent experience with it. If the only variable that was changed was the federal government serving as a source of funds, one could argue that there would be savings. But it is disingenuous to ignore all related costs. As noted in the Sallie Mae paper and as acknowledged by the GAO in releasing its recent report, there are costs that must be taken into account to conduct a fair comparison with the GSLP.

The Guaranteed Student Loan Program has provided $114 billion through over 53 million loans since 1966. And, half of that loan dollar volume has occurred in just the last six years. It is one of the important components of federal financial aid and has worked well to improve postsecondary student access. As the head of New York State's student loan guaranty agency, I urge you and your subcommittee to oppose any efforts to amend the subcommittee's reauthorization bill to include a Direct Loan Program as a replacement for the GSLP.

Thank you for your support.

Sincerely,

Cornelius J. Foley

PHEAA
Creating Access to Education

1991 October 25

The Honorable Claiborne Pell
Committee on Labor and
Human Resources
United States Senate
SR-335 Russell Senate Office Building
Washington, D.C. 20510-3901

Dear Senator Pell:

After sitting in on Thursday's Subcommittee on Education, Arts, and Humanities mark-up of S. 1150, the bill to reauthorize the Higher Education Act of 1965, I thought it essential to provide you and the other members of the full Committee with a sample of the views of Pennsylvania's postsecondary institutions on the House proposal to replace the existing Guaranteed Student Loan Programs with a program of direct lending.

Enclosed please find the Pennsylvania Association of Student Financial Aid Administrators' (PASFAA) recommendations on the House Reauthorization Bill as it relates to direct lending. This group represents all Pennsylvania postsecondary institution financial aid officers. Also, enclosed are letters from Penn State University and Dickinson College. PHEAA has received many such letters from other institutions, and the enclosed letters represent their views.

I would appreciate it if you would keep the position of our schools in mind as you consider any amendments dealing with direct loans during the full Committee mark-up of S. 1150 next week.

Sincerely,

Jay W. Evans

Jay W. Evans
Vice President
Student Loan Guaranty Program
and Legislative Affairs

JWE:djb

Enclosures
cc: David V. Evans
Kristine A. Iverson

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**Pennsylvania Higher Education Assistance Agency**
*660 Boas Street • Harrisburg, Pennsylvania 17102-1398*

OCT 21 1991

PASFAA

PENNSYLVANIA ASSOCIATION OF
STUDENT FINANCIAL AID ADMINISTRATORS

## PASFAA's Major Recommendations
## on the
## House Reauthorization Bill

### Federal Direct Loan Program

PASFAA does not support the creation and implementation of the Federal Direct Loan Program and the accompanying elimination of the Guaranteed Student Loan Programs. Although the Direct Loan program is presented as a simplified borrowing process for students, it naively dismisses many details which would seriously hamper the effectiveness of this program.

The administrative burden and liability potential placed upon schools would not be adequately compensated for by the $20 allowance per eligible student. Loan origination is an exact and serious business. The potential for increased institutional liability for origination errors is a real concern. The creation of a FISAP type allocation and reporting system would require schools to balance Direct Loan expenditures annually and tie the program to a standard award year which is currently not the case with the GSL programs.

Also in question is the Federal Government's ability to raise sufficient capital to support the tremendous cash flow requirements necessary to serve the Direct Loan Program. Unforeseen shifts in government policies can easily redirect federal funds to other priorities as was most recently demonstrated by the Persian Gulf Conflict. Who can predict what future national crisis or agenda will become the focus of government attention and spending while other programs (student aid) experience reductions?

### Guaranteed Student Loan Program

PASFAA would recommend the continuation of the Guaranteed Student Loan Programs. These programs have served a tremendous number of students in meeting their educational costs over the past years and could effectively continue to do so in the future with some adjustments to the over-regulation which has plagued the program.

The enhancements offered by the House Bill in the GSL Programs would help to streamline a number of rough areas in the current operation. Such options as the consolidation of married students loans, payroll deductions for repayment, and dual notification to students of loan sales would strengthen a number of areas. We would also recommend increasing the borrowing levels in the Stafford and PLUS/SLS programs to the limits proposed in the Federal Direct Loan Program. An unsubsidized Stafford Loan is also essential in meeting the needs of middle income families who face a real funding crisis for higher education.

Many of the concepts and ideas incorporated into the proposed Federal Direct Loan Program are items that schools, lenders and guaranty agencies have been requesting in the GSL Programs for years. Such items as standardized reporting formats, common item applications, deferments for in-school and hardships only, and graduated repayment schedules would all serve to simplify a program that has become cumbersome through years of over-regulation.

## Need Analysis

The concept of a single need analysis for the Pell Grant Program and to calculate the Expected Family Contribution is an excellent idea. Also the criteria for determination of independent student status represents a needed simplification to the current definition.

Professional judgement should be continued to allow financial aid administrators to assist families facing unique circumstances. This should include the elimination of the Dislocated Worker and Displaced Homemaker need analysis. In this same light, the proposed use of academic year income for independent students is not supported. Again, this is a process that can be accommodated through professional judgement where appropriate.

The recommended changes in the treatment of dependent student base year income and the elimination of a minimum student contribution are excellent proposals.

## Single Free Federal Form

Over the past several years, major MDE agencies have collected information necessary for not only Federal student aid but also for institutional, state, and private scholarship organizations. This process has in effect created a single application for the student to complete for full consideration of financial aid offered through four different sources.

The House proposal to create a single free Federal Form would actually complicate the process for many students by forcing them to complete multiple applications where only one is now required.

10/17/91 11:30 002

PENNSTATE

Joab Thomas
President

The Pennsylvania State University
201 Old Main
University Park, PA 16802

October 16, 1991

The Honorable William F. Goodling
United States House of Representatives
2263 Rayburn House Office Building
Washington, D.C. 20515-3819

Dear Congressman Goodling:

I am writing in response to your letter of October 10, 1991, regarding the Direct Loan Program in Title IV of the Higher Education Act Reauthorization bill. I appreciate the careful consideration you have given to this proposal and I agree with your assessment of the work of our Assistant Vice President for Student Financial Aid, Anna Griswold.

Because it is early in the reauthorization process, and at this stage there is no way to determine the final legislative language for a direct loan program, I feel the need to be specific on two points. Penn State cannot support any program that would create a significant institutional liability for the student loan program. You are correct in your assessment that we would oppose any direct loan program that creates any liability for defaulted student loans on the institutions that would administer such a loan program.

In addition, Penn State will not support any program which would pose a significant threat to the effective operation of the Pennsylvania Higher Education Assistance Agency (PHEAA). As you know, PHEAA has made a major contribution to the students in this Commonwealth in the area of non-subsidized loans and in supplemental and Health Education Assistance Loans. If a direct loan program would impair the ability of PHEAA to perform these valuable services for our students, then we would have to oppose such a proposal. We could support a system that promises to be more efficient and cost effective only if legislative language can be crafted to avoid the two concerns noted above.

I appreciate your willingness to share your thoughts on this significant legislative proposal. Although I recognize the inherent value of a direct loan program, I would have to be opposed to the enactment of this proposal if the two concerns mentioned above were to become a reality.

Sincerely,

Joab Thomas

Joab Thomas

An Equal Opportunity University

DICKINSON
COLLEGE
CARLISLE, PENNSYLVANIA 17013-2896
FOUNDED 1773

October 7, 1991

Honorable William F. Goodling
U.S. House of Representatives
2263 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Goodling:

As the House Committee on Education and Labor moves toward mark-up of its bill directing the reauthorization of the Higher Education Act of 1965, some very real concerns have developed as I have been informed of some of the elements of the draft material for mark-up which has been distributed to the higher education associations in Washington. Three areas of change proposed for mark-up have attracted my attention sufficiently to motivate me to register my opinions prior to mark-up in hope of influencing your committee's final thoughts going into the language of the bill.

**Institutional Eligibility for Title IV Participation:** Peer review of all facets of an institution's operations as performed by the accrediting associations should remain as an important hurdle for institutions applying for Title IV funds. I like the introduction of a state licensure office review of institutions which are making initial application or which are having problems in the administration of the federal financial aid programs. But, we should not eliminate the role of the accrediting bodies because, for institutions already participating in Title IV, they perform those regular peer reviews which can be much more pervasive than a state licensing office could mount. Also, accrediting associations do not require funds for administration to be raked off of the budgets designed to aid needy students.

**The Student Financial Aid Application:** I anticipate very serious problems to surround a stand alone federal application form. The call for simplicity is justifiable, but the proliferation of forms will not simplify the delivery system. For many Dickinson students, I foresee the need to file at least three separate application forms - the new federal form, the PHEAA grant application and a national financial need analysis document like the Financial Aid Form (FAF) to be centrally processed by an organization like the College Scholarship Service. This bizarre requirement may develop in other states as well if state-specific application data items cannot be imbedded in the federal form. It seems very important to me to maintain a very viable and intense role in the delivery system for the membership organizations like CSS which not only have the expertise to process millions of student applications in a timely manner, but which also form the foundation of the financial aid professional community upon which state and federal programs must rely for information and advice. I'm afraid that many of my colleagues at other institutions and I would lose confidence in an application process which did not include the expert services and distillation of professional opinion which only membership organizations such as the College Scholarship Service can provide.

**The Direct Student Loan Program:** I perceive the single source of funding of the proposed federal direct student loan program to be a real danger. My long experience with federal student financial aid programs is that there is an initial promise of adequate funding for all qualified applicants. Later limited funding requires rationing of scarce resources. Then the institutions are seen as a funding source and matching funds requirements are installed. Still later the percentage of the institutional matching requirement ratchets upward. A single source of funding is much more subject to political pressure than the broad base of funding currently enjoyed by the Stafford Loan Program.

The U.S. Department of Education does not have a good track record on its ability to administer the day-to-day demands of a large student aid program. The Federally Insured Student Loan (FISL), or "fizzle," as we used to call it, died a slow death. The alternate disbursement process in the Pell grant program never realized its potential because of frustrating delays and what the financial aid community perceived to be general neglect.

Public lending institutions were drawn into the student loan arena when we wanted to launch a massive program. The higher education community knew full well its shortcomings in the banking business from its experience with the original NDSL program. Many years later the institutions have progressed in the development of banking techniques to be able to manage the Perkins program which is simple and minuscule compared to the Stafford program. Without the lenders and the guarantee agencies like PHEAA, a major student loan program will have rough sledding indeed.

The foregoing comments are my kneejerk reactions to the first reports of reauthorization proposals. I will forward additional comments during the regular response period. Let me know if I need to elaborate.

Sincerely,

Donald V. Raley
Director of Financial Aid

Georgia State University
Office of the President
University Plaza • Atlanta, Georgia 30303-3083

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October 22, 1991

The Honorable Claiborne Pell
U. S. Senate
Washington, D. C. 20510

Dear Senator Pell:

Student loan and scholarship funds are of primary interest and importance to all of us in higher education as we see costs increasing at an unprecedented rate in spite of our efforts to contain them. Without easy access to such funding, many highly qualified students no longer can afford a college education. And you are well aware of our need for an educated and well prepared work force in future years.

The federal legislation currently being considered reauthorizing the Higher Education Act of 1965 contains changes which would replace the Perkins Loan Program with a federal Direct Loan Program and is of great concern to me and many educators. I do not believe that sufficient information has been compiled to allow such a critical decision to be made at this time.

My request is that you not support this portion of the legislation until further thorough study can be made of the true impact this change in the administration of loan funds would have, not only on the students but on the colleges and universities who in fact would be directed to administer the funds.

Your interest in and attention to this important matter is appreciated.

Sincerely,

Sherman R. Day

Sherman R. Day
Acting President

Georgia State University, a unit of the University System of Georgia, is an equal opportunity educational institution and is an equal opportunity/affirmative action employer

Woodbury University
OFFICE OF THE PRESIDENT

October 24, 1991

The Honorable Claiborne Pell
Subcommittee on Education, Arts, and The Humanities
U.S. Senate
Washington, D.C. 20510

Dear Mr. Pell:

I respectfully urge you to oppose any Bill which would eliminate or diminish the Perkins Loan Program or the Guaranteed Student Loan Fund.

The loss of those two very important support programs could have a serious negative financial impact on students who attend our school as well as the university itself.

Sincerely,

Paul E. Sago
President

PES/dls

7500 GLENOAKS BOULEVARD • P.O. BOX 7846 • BURBANK, CALIFORNIA 91510-7846 • TELEPHONE 818/767-0888 • FAX 818/504-9320

Western Iowa Tech Community College
Sioux City, Iowa

October 28, 1991

The Honorable Claiborne Pell
U.S. Senate
Washington, D.C. 20510

Dear Senator Pell:

As a community college advocate, I want to voice my opposition to Sen. Paul Simon's "direct loan amendment" to the Reauthorization Act.

As a community college employee, I shudder to think of the burden such a rule would place on our Financial Aid Office.

As a citizen, I cannot think of a single reason to plunge colleges, universities, and financial institutions into the chaos that would be the inevitable result of this move.

Please place this in the record of October 29's Direct Loan Hearing. Thank you for the opportunity to express my views.

Sincerely,

Linda Santi

Linda Santi

PENN
TECH

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October 30, 1991

The Honorable Claiborne Pell
United States Senate
335 Senate Russell Office Building
Washington, DC 20510

Dear Senator Pell:

While I appreciate Senator Simon's efforts to solve loan default problems by creating the IDEA Credit, I have generally been opposed to any direct lending proposals.

As one whose school has a 2.7% default rate, I feel that the efforts being made to reduce defaults in higher percentage schools have begun to work, and will continue to do so if the Congress integrates "outcomes" into the Reauthorization. On the other hand, I have concerns about the impact of personal and institutional guarantees of Title IV funds (as in the House proposal) when most of us, small businesses, just can't provide them. Any proposal that a certain number of non-program students be in a school for Title IV enrollments is especially restrictive when enrollments are difficult to maintain, and denies student access and choice. This provision is further complicated as more middle-class students receive aid.

At first glance, the IRS collection provision seems great. However, this removes the responsibility from the borrower as if all can't be trusted. While I support most "rights" laws, I do feel that this nation has become too "rights" conscious and has lost the "responsibility" that goes with a right. My solution to repayment is garnishment, as we have in our state lending program.

Frankly, any program that puts the school in the lender position may create new problems when opportunists get wise. Having a student feel that the school is involved in the lending process also seems to put less pressure on the need to repay. Improving what we have strikes me as the best solution.

Thank you for your continued understanding and support of the career-school sector of education that has contributed so much to the needs of employers as well as graduates.

Sincerely yours,

Louis A. Dimasi
Director

PENN TECHNICAL INSTITUTE • 110 NINTH STREET • PITTSBURGH, PA 15222 • 412-355-0455

CRID
COURT REPORTING INSTITUTE OF DALLAS

VIA FAX

October 28, 1991

The Honorable Claiborne Pell
UNITED STATES SENATE
335 Senate Russell Office Building
Washington, D.C. 20510

Dear Senator Pell:

I am writing to express my serious concern about Senator Paul Simon's proposal to add direct lending to the Senate bill to reauthorize the Higher Education Act of 1965.

In general, I am very pleased with the draft of S. 1150. However, Senator Simon's proposal now requires you to evaluate direct lending. I believe that the direct lending issue should be considered as a pilot program, if at all.

On the surface, the direct lending proposal has a lot of popular appeal. However, it lacks substance; many details have not been thought out. As written, the proposal is complicated and confusing. Some of our concerns include the following:

1. The proposal infers this would be a no-cost program. It does not address:
   - The costs to the government of borrowing money to lend. The Guaranteed Student Loan program is the only Title IV program that depends primarily on private capital as its major source of funding.
   - The costs of government administration of the program.
   - The cost to institutions to administer the program.
   - The costs to the federal budget in student loan defaults.

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2. At the beginning of the phase-in of the program, lenders would immediately withdraw from the Stafford, PLUS and SLS programs. Students would be denied access to a postsecondary education during this period.

3. Using the IRS as a collection agency would ensure that Americans who do not file income tax returns will not repay their loans. It gives citizens another excuse not to file.

Admittedly, there are problems with loan programs today, but they are being solved. Default rates have not risen appreciably, although the volume of loans and loan defaults have. Default prevention efforts have started to work -- but they need more time to be truly effective. The Senate draft bill includes integrity provisions that will go a long way toward improving the programs.

We strongly urge you to reject Senator Simon's proposal and to proceed with consideration of the draft bill as presented. Thank you.

Sincerely,

Carolyn Willard

Carolyn S. Willard
President

CSW/jlf

Sent Forth
CONCORDIA COLLEGE

October 28, 1991

The Honorable Paul Wellstone
United States Senate
123 Russell Building
Washington, DC 20510

Dear Senator Wellstone:

The Simon Durenberger Direct Loan Proposal (S.~~145~~ 1845) has caused some concern. I am writing to share some of these with you.

First of all, my greatest concern is the radical reduction in subsidies for the working poor and middle-class families compared to the current program. The program eliminates the in-school interest subsidy, thereby representing a net decrease in assistance to middle-income students (subsidies under the amendment are paid only to borrowers with low post-education income).

A loss of available loan capital during the period of transition is very likely to occur. Lenders are likely to cease or restrict future lending in the guaranteed student loan programs once this legislation is passed. It is irresponsible to assume that lenders and guarantee agencies will phase out their participation in that program precisely in keeping with the implementation of Direct Loans.

The use of the federal income tax system to collect student loans would significantly complicate the income tax process as well as creating burdens for companies of all sizes who have to adjust withholding to account for amounts owed on student loans. I do not believe that this could be accomplished in an orderly and timely manner.

Federal administrative costs for any Direct Loan Program are substantial. I view this as an extremely complicated program and therefore I am hesitant to see that any savings could be achieved without harming our students.

I have spent the past seventeen years working with students who are repaying their student loans. I would find it reprehensible to support a loan program which would take away the ability of borrowers to save for their own childrens' education, or otherwise contribute to the growth of the economy because of the life long payment plan this amendment suggests.

If I can provide assistance or additional information to you or your staff, please let me know.

Sincerely,

Jeanne Dotson

Jeanne F. Dotson
218 299 3323

Business Office

Concordia College, 901 South Eighth Street, Moorhead, MN 56562
(218) 299-3150

an equal opportunity employer

October 28, 1991

The Honorable Paul Wellstone
United States Senate
123 Russell Building
Washington, DC 20510

Dear Senator Wellstone:

Although it is not possible for me to attend the hearings related to the Simon-Durenberger proposal, I am sending comments that I consider to be relative to the proposal. Please share these comments with the other members of the committee.

If I may be a resource to you in the future as the Reauthorization of the Higher Education Act progresses, please contact me at your convenience.

Sincerely yours,

Dale E. Thornton
Director of Financial Aid

Office of Financial Aid

Concordia College, 901 South Eighth Street, Moorhead, MN 56562
(218) 299-3010

an equal opportunity employer

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Mr. Chairman and members of the Senate Committee on Labor and Human Resources:

I wish to thank you for the opportunity to present comments in reference to the Simon-Durenberger proposal. I am the financial aid director at Concordia College located in Moorhead, Minnesota, and have been assisting families with their education financing for the past nineteen years. Concordia College is a private, liberal arts college with an enrollment of 2933.

As I review this proposal, it becomes evident that students are the beneficiaries. The current Guaranteed Student Loan process is cumbersome and often confusing. Students must deal with multiple entities. Loan proceeds are less than the loan obligation and oftentimes are not timely in disbursal.

The IDEA loan simplifies the process for students. The student only has contact with the school. Loan disbursals are immediate and for the amount the student has borrowed and is expecting. The process of repayment is income sensitive and the borrower only has to deal with one entity.

One area where the student may not be the beneficiary of this proposal is for the middle-income borrower who, under the current loan program, receives an interest subsidy while in school. This student is not eligible for a Pell Grant and consequently does not reap a benefit. Have projections been done to illustrate that this effect will be offset on the repayment end of the cycle? If there is not a benefit to the middle income borrower, we need to adjust the proposal to ensure benefits to all.

Administratively from a school perspective, I feel that students will be better served since the administrative burden of the school will be less. Having one procedure with one set of forms is to me far superior to dealing with a multiplicity of forms, lenders, guarantors, computer products, and servicers. The IDEA loan proposal lends itself well to computerization.

Another area that is a strong selling point of this proposal is the emphasis on early intervention funding. Anything that can be done to encourage students to persist with their secondary education and pursue post-secondary education is to be applauded. I might suggest further that the commitment be increased so as to insure greater realization of academic potential.

Lest I be accused of being overly positive about all aspects of this proposal, I must take issue with a couple of areas. First, I am not certain that merit awards are the best expenditure of public funds. I have observed that schools and private enterprise do a pretty good job of rewarding excellence. Why not depend on them to continue doing so and redirect federal funds to those students who are most in need or to reduce the grant/loan imbalance or to increase early awareness projects?

Secondly, I view with a bit of skepticism the statement that savings of $2.7 billion from the elimination of current Stafford and SLS programs will enable all that is proposed. Do the projections include costs to the IRS for their collection efforts? Or, the costs of writing-off loans that cannot be repaid within the allotted time due to either underemployment or death/disability? Somehow projections are not always correct and I would hate to have students suffer the consequences of inaccurate projections.

I also think we need to do more to encourage parents to assume increased responsibility for educational expenses. Perhaps a more attractive interest rate for the PLUS program would do more to encourage parental participation than merely informing them of PLUS availability. Parents are possibly better suited for repayment after the student completes his/her course of study than is the student who is just beginning a career and/or family obligations. Further, tax benefits to families that encourage savings and provide deductions for tuition paid could encourage parents to do more.

And finally, I am concerned that the negative reactions that always accompany new proposals will effectively kill this proposal. Certainly we need to question but from the perspective of making a good proposal better. Here we have a proposal that has the potential of responding to requests for a simpler system with a common loan application format.

In conclusion, this Reauthorization of the Higher Education Act presents us with an opportunity to improve upon the student aid programs. The Simon-Durenberger proposal is the beginning of what I hope will be a process that will provide more educational opportunity for students. But, is it possible to do all that must be done for students without an increase in available funding? If not, I am hopeful that those responsible for legislation will see the wisdom of increasing the federal commitment to students.

STATEMENT BY
SENATOR DANIEL K. AKAKA
UNITED STATES SENATE

OCTOBER 29, 1991

FINANCIAL AID FOR ALL STUDENTS ACT OF 1991

BEFORE THE SENATE LABOR & HUMAN RESOURCES
SUBCOMMITTEE ON EDUCATION, ARTS, & HUMANITIES

Mr. Chairman, I appreciate the opportunity to share my thoughts on and support for the concept of the Income Dependent Education Assistance (IDEA) credit program. I am pleased that the Subcommittee is taking an active interest in this new approach towards providing student financial aid assistance.

As you know, I introduced in the Senate the first income dependent student loan bill. S. 1414, the Income Dependent Educational Assistance Loan Act (IDEAL), was offered to address rising concerns about the availability of aid to financially needy students attending post-secondary colleges, universities, trade and technical schools.

IDEAL was intended to resolve two major concerns facing post-secondary students today. The first is that far, far too many talented and qualified students from low-income families are being forced to abandon or indefinitely postpone their college aspirations because grants and loans are unavailable or insufficient to meet their educational needs. The second pressing concern is the massive amount of debt middle-income families and their children are incurring in their efforts to obtain a quality post-secondary education.

Mr. Chairman, I am confident that an income dependent student loan program will help to alleviate both of these urgent concerns. As a matter of public policy, it is imperative that we provide all individuals the opportunity to pursue higher education. If we are to successfully compete in this new world market, our citizens must be brighter and more innovative than those against whom they are competing.

The attractiveness of the income dependent loan concept is its novel and common-sense approach to financing higher education. Under the current system, loans are repaid on a standard basis, usually over a ten-year period. However, we all know that graduates entering the job market are oftentimes unable to afford these high loan repayments. Studies and surveys show that an individual's earning power increases in proportion to experience and age. It is only logical, therefore, to base loan payments on income capability.

It is for these reasons that I enthusiastically support the efforts of Senators Simon, Durenberger, Bradley, and others to dramatically restructure the student financial aid program of the Higher Education Act. However, fiscal realities often temper our proposals, and the income dependent student loan program is no exception. Before we proceed with such a sweeping initiative, it is essential that we first implement a demonstration project, so that we may assess the effects of this revolutionary program change.

My IDEAL bill, S. 1414, addressed this concern by authorizing the Secretary of Education to carry out an income dependent student loan demonstration program in ten congressional districts. This is not a hard and fast number, and we could even institute pilot programs in each state. However, the fact remains that, as with any new initiative, it is important that we identify the problems under manageable conditions, and work out the bugs before we implement this vast program on a national scale.

Mr. Chairman, let me reiterate my support for an "IDEAL" "IDEA" whose time has finally come. Based on the need before us, I am absolutely convinced that we should proceed to incorporate an income dependent student loan program in the reauthorization of the Higher Education Act.

Thank you, Mr. Chairman.

Senator **Simon**. I have no further questions.

Mr. Chairman, let me just say I appreciate your patience in a hearing that got imposed on you, I'm afraid, and I also appreciate my colleague Senator Durenberger, who has been very helpful on this.

Senator **Pell**. I thank you very much. This is an idea that's not a brand new idea, but it is an idea that is being studied and should be studied more. I like perhaps the idea of a demonstration program to see how it would actually work, but I have an open mind on it, and as we go into the markup tomorrow and through the months and years to come, nothing is ever final, particularly in this body, so as we move ahead on the basic bill, we can still have an open door to seeing how the proposal of Senators Simon and Durenberger might work.

Senator **Durenberger**. Thank you, Mr. Chairman.

Senator **Pell**. I want to thank the witnesses for coming, and out of mercy to them and all our faithful stalwarts here, I will not ask any questions and will recess the committee.

[Whereupon, at 6:50 p.m., the committee was adjourned.]

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